Norske Skog Canada Limited
2000 Annual Report

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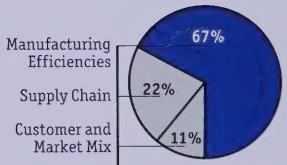
Working to find a better way

for our Company

and our customers.

Performance Improvement



Performance improvement of $105 per tonne in paper operations.

An intense focus on continuous performance improvement has paid off. Literally. By the end of 2000, the Company had improved the bottom line of its paper operations by $105 per tonne compared with fiscal 1999. This achievement reflects the efforts of employees throughout Norske Skog Canada. It also reflects our emphasis on working hard, working smart and staying focused on our business strategies and objectives.

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We're Norske Skog Canada – the largest producer of newsprint and groundwood specialty papers in western North America, serving the publishing and commercial printing industries. We are also the world's largest producer of sawdust-based pulp.

Corporate Profile

Our goals are to be the preferred supplier of lightweight printing papers and to be number one in the pressrooms of our customers by consistently delivering products and services designed to provide superior performance.

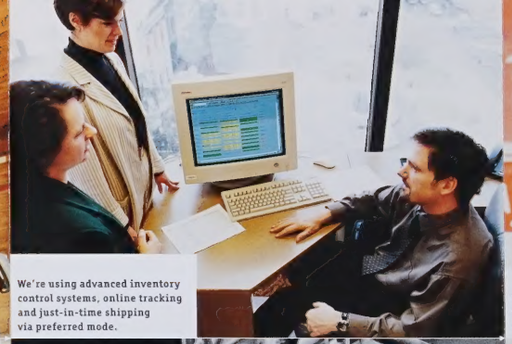
Norske Skog Canada is part of Norway-based Norske Skog, an international paper group that is one of the world's leading suppliers of publication papers. Norske Skog has sales, distribution and production facilities in 13 countries on five continents and ranks as the second largest newsprint producer globally.

Working to find a better way

for our Company

means managing our supply chain effectively.

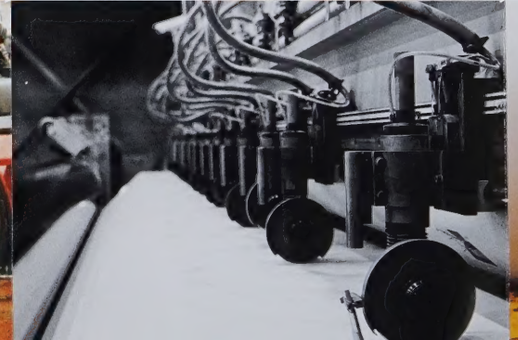
From customer order to order fulfillment, our job is to improve the process, eliminate wasted effort and maximize our margins.



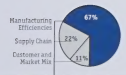
We're using advanced inventory control systems, online tracking and just-in-time shipping via preferred mode.

We're shortening the distance between our Company

and our customers.

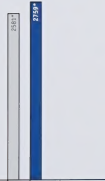


Performance Improvement



Performance improvement of $105 per tonne in paper operations.

During the last six months of 2000, the Company produced 178 more tonnes per day of paper than in fiscal 1999. On an annualized basis, this is equivalent to approximately 65,000 tonnes per year. *Based on 48.8 gsm

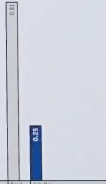


Paper Production
tonnes per day

Reduced inventory, lower transportation costs and reduced damage contributed to improved operating performance. The cost to transport a tonne of paper during the last six months of 2000 was $101, down $19 per tonne from fiscal 1999. Based on annual sales of 940,000 tonnes of paper, this amounts to savings of approximately $18 million per year.

Transportation Costs
dollar per tonne of paper sold

We're optimizing our paper machines like never before – the move to fewer paper grades reduces lost production for grade changes.



Value of handling damage
percentage of cost of goods sold

When the Company's performance improvement program was started in November 1999, paper inventory was 95,000 tonnes. This was reduced to 42,000 tonnes at the end of December 2000.

Paper Inventory
tonnes

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Manufacturing Efficiencies **With better planning and a great effort from front-line employees, the Company has increased production at all of its mills. Other productivity gains have come as a result of dedicating paper machines to specific products. Operational improvements, including increased productivity, lower kraft consumption and energy price management have helped to offset rising fibre and energy costs. We've also significantly reduced our fibre losses at both paper mills, contributing to substantial savings.**

Supply Chain **Significant operational improvements have also been realized from our supply chain and order fulfillment processes, which cover everything from the purchase of raw materials to the delivery of finished paper products to our customers. New systems and procedures introduced last year have allowed us to reduce inventory levels, increase inventory turnover and provide faster delivery to customers. Our inventory tracking capability and accuracy is among the best in the industry and enables us to achieve better utilization of the barges, rail cars, trucks and containers that we use to ship our products. With better planning and scheduling, we're now able to ship our products to customers using the most cost-efficient mode of transportation on virtually every shipment. The savings in transportation costs alone contributed $19 per tonne to our profit margin improvement in 2000.**

Customer Mix **We've optimized our customer base and have taken advantage of strong market demand to sell virtually all our paper in our target markets – North America, Asia, and South America. As well, we've reduced the number of paper grades we produce – giving us greater efficiencies. The production of lower basis weight papers – such as our 45 gsm newsprint – uses less fibre, thereby reducing greenhouse gas emissions and the overall environmental impact per newspaper read. The result is lower costs for both our customers and ourselves.**

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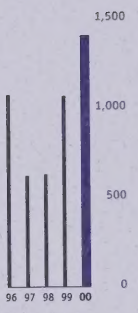
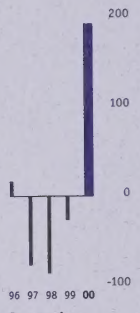
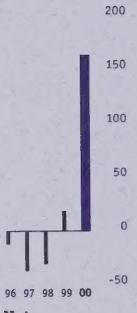
Financial Highlights



Net sales [1]
(in millions of dollars)



Operating earnings (loss) [1]
(in millions of dollars)



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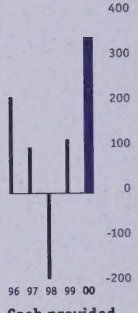


Cash provided by (used for) operations [1]
(in millions of dollars)

Chart information is on a calendar year basis

Note:
1 continuing operations
2 the Company's results in 1997 and 1998 were affected by a nine-month strike at its manufacturing facilities which ended on April 18, 1998

(in millions of Canadian dollars)	6 months ended December 31 2000	6 months ended December 31 1999	Year ended June 30, 2000
Financial Summary			
Net sales	$ 729.0	$ 574.3	$ 1,253.3
Operating earnings	112.0	28.0	108.3
Net earnings	82.5	18.8	99.4
Cash provided by operations	170.3	15.8	191.1
Capital expenditures	58.4	24.8	57.2
Financial Position			
Total assets	$ 2,720.6	$ 2,525.6	$ 2,599.3
Cash and short term investments	929.7	744.6	854.9
Common shareholders' equity	2,165.2	2,076.6	2,120.0
Ratio of debt to capitalization	0:100	0:100	0:100
Per Common Share (in dollars, except shares outstanding)			
Net earnings	$ 0.66	$ 0.15	$ 0.80
Cash provided by operations	1.37	0.13	1.54
Book value	17.43	16.72	17.07
Shares outstanding (in millions)	124.2	124.2	124.2

The Company's year-end is December 31

Contents **01 President's Message; 07 Environmental Report; 15 Production Capacities; 16 Management's Discussion and Analysis; 30 Management's Responsibility; 31 Auditors' Report; 32 Financial Statements; 35 Notes to Consolidated Financial Statements; 44 Comparative Review; 46 Corporate Information**

Norske Skog Canada President's Message

What a difference six months can make.

In our last annual report to shareholders – for the fiscal year ended June 30, 2000 – I alluded to the pace of change underway in your Company. A pace that saw us set ambitious, across-the-board performance improvement goals. A pace that saw the early benefits of our performance improvement initiatives. And a pace that saw us report our best financial results in four years.

Our move to a December 31 fiscal year-end – which is the more common corporate year-end in the Northern Hemisphere, and one that is certainly prevalent in our industry – prompts this annual report. It includes detailed financial results for the last six months of 2000, and provides a perspective on our pulp and paper businesses for the calendar year, with an emphasis on our performance improvement efforts.

One clear message in this report: The results Norske Skog Canada recorded in the first half of 2000 were just the beginning. Operating earnings from our paper operations strengthened as the year progressed. We're clearly a Company on the right track.

We're also a Company with the right leadership team. During the past 12 months, we've assembled a strong, new senior management team that has demonstrated it knows how to deliver bottom-line results and add value to our business. This team has implemented business systems and processes that will allow ongoing performance improvement. It has also involved employees throughout the Company in performance improvement and safety decisions, tapping employees' strong desire to contribute to a winning Company.

Our Focus on Performance Improvement

We began 2000 with an aggressive performance improvement target – a $105 per tonne improvement in our paper operations by the end of 2001. An ambitious target by any measure. But a necessary one if Norske Skog Canada is to be counted among the best in our industry.

I'm pleased to report that we achieved our target by December 31, 2000 – a full year ahead of schedule. This was a team effort all the way. It required hard work, commitment and determination, plus the ability – and desire – to succeed. And that's what employees delivered – from every corner of the organization. Through and through. End to end.

Most of our performance improvement efforts during the past year focused on our paper operations, in part because of the opportunities to make substantial gains. This effort has paid off. We've realized significant operational improvements from our supply chain and order fulfillment processes; we've optimized our customer base; and we've improved the production capabilities at our mills with better planning and by involving front-line employees in developing solutions.

Solid Platform

We now have a solid platform – and the momentum – to confidently tackle the challenges and opportunities that await us this year. First and foremost, we will continue our performance improvement activities. The initiatives to date were not one-time efforts. Success in today's global economy requires continuous operational improvement – in both our paper and pulp businesses. And that's what we expect to deliver.

Second, we will focus on addressing strategic issues and restructuring our balance sheet to create value for shareholders.

Russell J. Horner
President and Chief Executive Officer

We're excited and energized – by what we've accomplished to date, and by the opportunities ahead. We've successfully taken the first important steps to continuous improvement. We've built momentum for the future. And we're delivering results.

Financial Results

For the six months ended December 31, 2000 we achieved our strongest financial performance since 1995. Net earnings for this period increased more than 300 per cent – $83 million, or 66 cents per share compared to $19 million, or 15 cents per share in the same period of 1999.

Our results reflect improved profit margins from our performance improvement initiatives. Market conditions also played a role. We saw higher prices for our principal products, higher sales volumes for newsprint and specialties, and we benefited from a stronger U.S. dollar. Partially offsetting these factors were lower pulp sales volumes and higher fibre and energy costs, which affected both our paper and pulp operations.

Our sales were $729 million for the six months ended December 31, up from $574 million for the same period in 1999. Cash flow provided by operations was $170 million for the six-month period, up significantly from $16 million for the last six months of calendar 1999.

Our dividends to shareholders for the six months were 30 cents per Class A common share.

Paper Business

Newsprint and specialties contributed operating earnings of $47 million in the six months ended December 31, 2000. This represents a dramatic turnaround from the operating loss of $14 million recorded in the same period of 1999. Our performance improvement initiatives – coupled with strong market demand for our products – were the main factors behind this strong showing.

Looking ahead, we will continue to build on our already solid reputation for quality newsprint and groundwood specialty paper. In particular, we'll concentrate on markets with the greatest revenue potential.

In 2001, we're already sold out of our newsprint production until the end of June. And these sales are to targeted customers in North America, Asia and South America. Our focus will be on 45 gsm newsprint, with the ability to deliver both 43 and 48.8 gsm where customer demand exists.

We're also sold out of our directory production until the end of June. One and a half paper machines at Crofton are now dedicated to producing our Catalyst™ brand directory paper and both have achieved production breakthroughs in the last six months. Directory is a stable business for us, as contracts tend to be long term.

In hi-brites, we adopted a new business strategy. Our No. 2 paper machine at Elk Falls is now exclusively used for hi-brite production. We have reduced the number of hi-brite grades from 13 to four, contributing to greater efficiencies and increased productivity.

Market Pulp and Containerboard Business

Operating earnings of $65 million were recorded for pulp and containerboard for the six months ended December 31, 2000 compared to $42 million for the same period of 1999.

As markets began to soften in the fall, we announced curtailment measures to temporarily reduce capacity at our three pulp mills. Despite curtailment, our Crofton mill achieved record total production levels for the last six months of the year – a reflection of the overall improvement in this area.

We announced in late October that we are exploring options for the sale of our Mackenzie Pulp mill. We're also optimizing the Crofton and Elk Falls pulp operations and will integrate all pulp and containerboard activities with our paper operations at the two mills. Running pulp and paper as separate entities no longer makes good business sense. This move is also consistent with our strategy to simplify our business processes.

Safety

Another important component of continuous improvement is our emphasis on safety. Our employees want to be part of a winning company, one that is committed to providing a safe working environment. Safety also affects profitability – safe companies tend to be profitable companies.

We're working with front-line employees to provide the safest possible working conditions and to address safety concerns before they become safety issues. We're seeing positive results of this cooperative effort and commitment to safety. In particular, lost time injuries have been reduced by more than 30 per cent year-over-year.

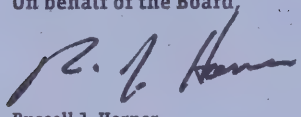
Our Crofton pulp mill was recently recognized by the Pulp and Paper Forum as the safest mill in British Columbia in 2000. Our Crofton paper mill won the same award as safest mill in the fourth quarter of 2000. The award is based on the fewest lost time injuries for number of man-hours worked.

Environmental Commitment

Our commitment to continuous improvement also extends to the environment.

This commitment includes manufacturing paper, pulp and containerboard to reflect the growing marketplace expectation for socially and environmentally responsible products and community expectations for operations with minimal impact. In August 2000, your board of directors approved capital projects – totaling $29.1 million – to improve air emissions from our Elk Falls

On behalf of the Board,



Russell J. Horner
President and Chief Executive Officer
January 26, 2001

and Crofton facilities. The first and largest phase of the Crofton project is now complete, and the Elk Falls project is scheduled for completion in July. In addition to environmental gains, these projects will also generate cost savings. For example, the new wet electrostatic precipitator at Elk Falls will allow us to reduce our dependence on fossil fuels.

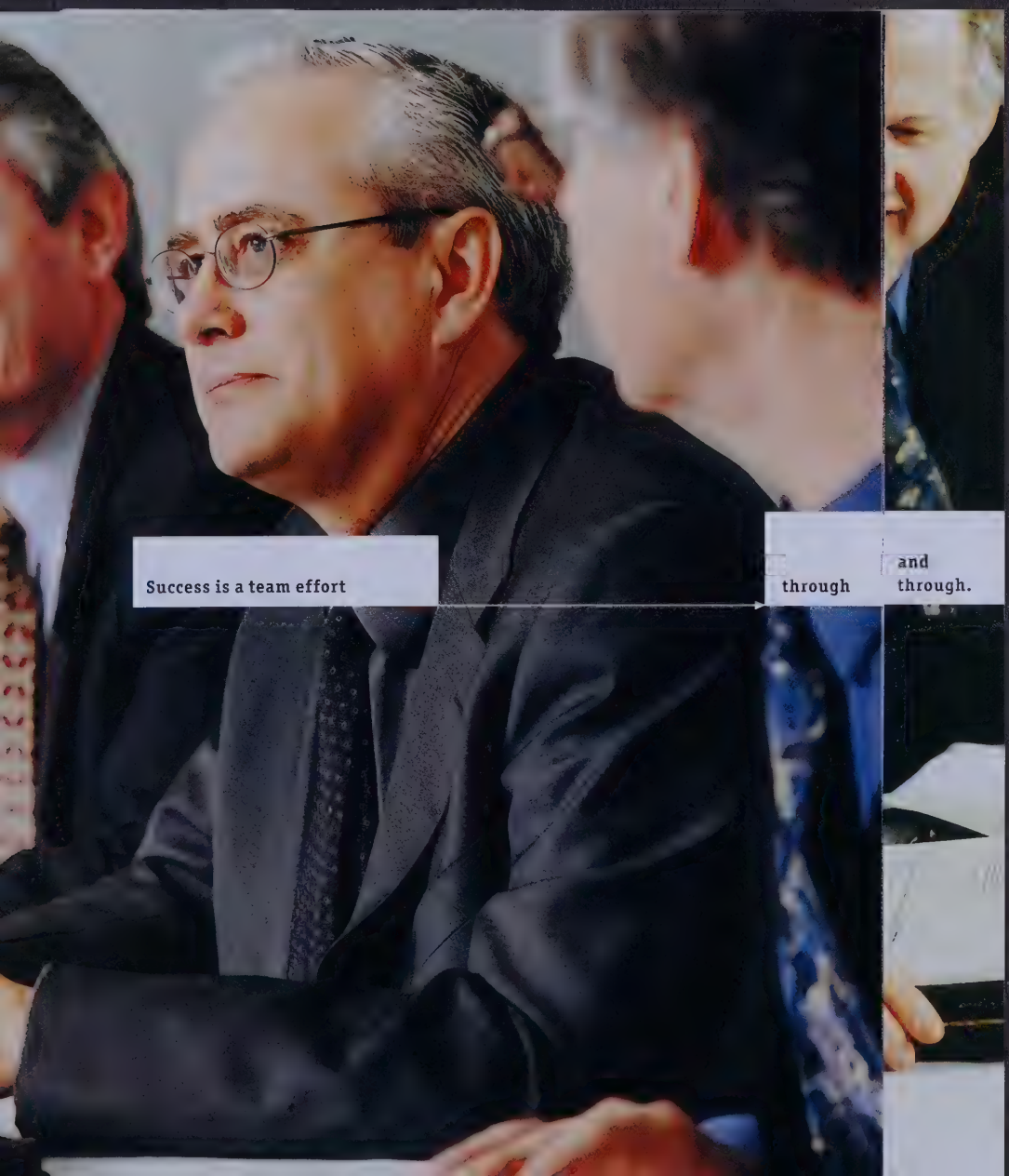
Your Company is also involved in an unprecedented initiative to resolve forest management issues on the Central and North Coast of British Columbia. Four forest companies and environmental groups have agreed to set aside traditional differences and work together with other stakeholders to develop an ecosystem management framework for the forests in this region. This initiative reflects our firm belief that long-term solutions must replace perennial conflict if we are to realize fundamental and lasting change in forest management – not just locally, but globally.

Our commitment to the environment is shared by our new parent company. Norske Skog, a global pulp and paper company with sales, distribution and production facilities in 13 countries on five continents, became our majority shareholder in July. It's a relationship that will benefit both organizations. We'll benefit from access to Norske Skog's global resources. And Norske Skog will benefit from access to our market strength, our North American presence, technical expertise and skilled workforce.

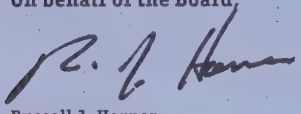
The Year Ahead

Leadership. Continuous improvement. Focus. Commitment. It's a winning combination that keeps us pointed toward our goal – to be Number One. For our customers, our communities, our employees, and for our shareholders.

In 2001, this winning combination will see us address strategic issues, continue to simplify our business processes, and achieve superior financial and operational performance throughout the Company. Through and through. End to end.


Success is a team effort
through
and
through.

On behalf of the Board,



Russell J. Horner
President and Chief Executive Officer

Leadership and Teamwork

We've assembled a winning executive team at Norske Skog Canada – a new team that has delivered top-line and bottom-line results through leadership. While leadership occurs at all levels of our Company, it starts at the top. In the past year, every executive has contributed directly to the turnaround that we believed was possible in spite of many issues and challenges.

Our approach has been straightforward – manage the business according to well-defined objectives, simplify business processes, work together as a team, engage employees and, most important of all, send everyone home safe and sound at the end of each working day. The results speak for themselves. The individual contributions deserve recognition.

Norske Skog Canada is committed to responsible environmental performance and to continuous improvement. This commitment includes manufacturing pulp, paper and containerboard to reflect the growing marketplace expectation for socially and environmentally acceptable products and community expectations for operations with minimal impact.

Environmental Report

Manufacturing

Our commitment to environmental responsibility starts with manufacturing products that help both our customers and ourselves reduce our impact on the environment. For example, our lower basis weight papers – such as our 45 gsm newsprint – require less fibre. The result is reduced use of raw materials, chemicals and energy and a lower environmental impact per newspaper read.

We're also using less fibre throughout our manufacturing processes by steadily improving the quality of the mechanical pulp component.

Our Company continues to be the world's largest producer of sawdust pulp, used as a substitute for conventional chip-based pulps in the manufacture of tissues, and specialty papers and products.

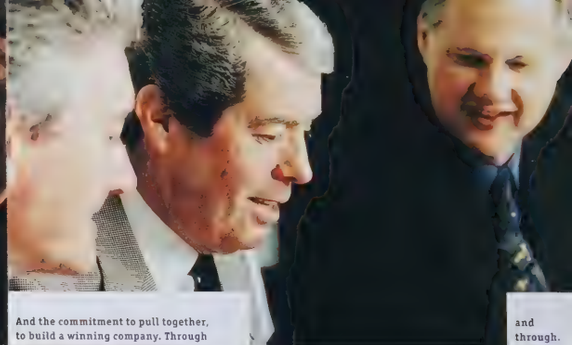
Success is a team effort

through

every department
and location of
Norske Skog Canada.

We're all working toward a
common goal. To be number one.

It requires pride and
a sense of ownership.



And the commitment to pull together,
to build a winning company. Through

and
through.

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Russell J. Horner
President and
Chief Executive Officer

Russ assembled a new senior management team and led the Company to a $105 per tonne improvement in our paper business – a full year ahead of schedule. Last year, Norske Skog Canada reported its best results in five years. Russ was appointed to his current position in late 1999. A senior pulp and paper executive with Canadian and international industry experience, Russ has returned to B.C. from Sydney where he was most recently CEO of the Australasia Region acquired by Norske Skog from Fletcher Challenge Paper.

Dennis J. Day
President, Pulp Operations

Dennis is focused on reintegrating our pulp operations with our paper business, and on selling our Mackenzie pulp mill. He will continue to steer our pulp business toward the first quartile cost position, while merging the 'best' of our pulp with the 'best' of our paper culture. Dennis was appointed to his current position in October 2000.

James E. Armitage
Senior Vice-President,
Sales and Marketing

Jim has significantly improved our sales margins by optimizing the Company's mix of products, markets and customers. He led the merger of our specialty and newsprint business units, creating in the process a single, strong team of sales and marketing professionals. An experienced marketing executive and consultant to the newspaper industry, Jim was appointed to his current role in August 2000.

W.R. (Ron) Buchhorn
Senior Vice-President,
Human Resources

Since joining the Company in July 2000, Ron has strengthened our human resources function, and is focused on improving our overall performance by retaining and developing employees, aligning compensation with performance, encouraging employee involvement and working constructively with our trade unions. In addition to his 15 years of experience in the forest industry, Ron is a former Assistant Deputy Minister of Labour and served as Senior Vice-President of Workers Services at the Workers' Compensation Board.

Svein K. Aurstad
Vice-President, Planning and
Business Performance

Svein is responsible for corporate governance related to our environmental processes, and leads the Company's Environmental Council to proactively address environmental issues and implement our long-term environmental plan. He is also focused on performance improvement. Svein has more than 25 years technical and operational experience with Norske Skog Europe. He is the former mill manager of Norske Skog's flagship mill in Norway at Skogn.

Jesse M. Beaman
Vice-President,
Crofton Pulp and Paper

Jess steered Crofton to record production numbers in 2000. A key was involving employees in the success of the mill. One result – Crofton won safety awards for both the pulp and paper mills. Jess has more than 20 years of industry experience. He joined the executive team in March 2000. Throughout his career, Jess has held senior management roles at Elk Falls, Mackenzie and at the Boyer mill in Australia. Outside of the Company he has also filled significant operational roles with MacMillan Bloedel and Pacifica Papers Inc.

Stuart H. Clugston
Vice-President,
Corporate Affairs

Stu is responsible for our strategic issues management and communications processes. His leadership in our certification efforts led to his election to the Board of Directors of the Certified Forest Products Council. He is also spearheading our involvement in a collaborative initiative with other forest companies and environmental groups to address forest management issues on the Central and North Coast of BC. Stu was appointed to his new position in August 2000.

Ralph Leverton
Vice-President, Finance,
Chief Financial Officer
and Secretary

Ralph is responsible for corporate accounting, treasury and risk management and serves as corporate secretary. Ralph brought a strong focus and structure to our finance team last year. A seasoned CFO with more than 25 years industry experience, Ralph joined Norske Skog Canada in July 2000.

Robert B. Lindstrom
Vice-President, Strategy

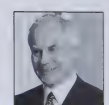
Bob will take the lead on directing our business growth strategy this year. Previously, as Vice-President, Supply and Utilities with our pulp operations, Bob led the development of energy, procurement and logistics strategies that have resulted in significant cost savings. He was appointed to his current position in November 2000.

R. Scott McLean
Vice-President, Supply Chain
and Information Technology

Scott integrated our end-to-end supply chain and introduced business process improvements that resulted in a significant contribution to our early achievement of the $105 per tonne performance improvement. Joining the Company in 2000, Scott has also assumed leadership of the Company's Information Technology activities.

James M. Miller
Vice-President, Sales and
Marketing, Pulp Operations

Jim directs our pulp sales and marketing activities in 23 countries. His group developed new contracts for our various pulp grades and achieved record net returns from increased sales of our SilverLiner™. Jim has more than 20 years experience in the international pulp industry.



Brian A. Nordman
Vice-President, Fibre Supply

Brian is responsible for the sourcing and supply of fibre for all of the Company's pulp and paper operations. He leads a highly-regarded team that has earned a reputation for creating value through integrated processes that link production planning to lower cost fibre opportunities. The team manages supply from more than 50 different sources in the Pacific Northwest, Alberta and Alaska. Brian was appointed to his current executive position in October 2000.

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Environmental Report

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Certified Products

As a pulp and paper manufacturer that primarily uses sawmill wood residues, Norske Skog Canada does not harvest trees on either public or private lands. To supply its mills in British Columbia, the Company purchases wood fibre from independent suppliers. The Company is committed to sourcing certified fibre for our products and we expect our major fibre suppliers to pursue forest management certification. In 1999, the Company received a chain-of-custody certification according to Forest Stewardship Council standards for our Elk Falls paper mill. Certification gives us the ability to provide our customers with independent verification of the certified fibre content in our paper products.

To provide our customers with objective, product-specific environmental information the Company is obtaining independent verification of environmental information related to our directory, newsprint and sawdust pulp. The Environmental Profile Data Sheet (EPDS) is a voluntary, standardized form reporting the environmental aspects of our products from a manufacturing perspective. TerraChoice audited our Catalyst™ directory paper and Marathon™ newsprint in November 2000. We plan to apply for an eco-logo for Catalyst™ in 2001 and pursue an EPDS for our Triax™ sawdust pulp.

Sourcing Certified Fibre

We require that our fibre suppliers provide verifiable information about their forest management practices – including specific data about the fibre they supply to us. We also expect our major fibre suppliers to pursue certification under programs that are recognized in the international marketplace. Over the past two years, Norske Skog Canada surveyed all of its fibre suppliers to verify their forest management practices and certification intentions. In fiscal 2000, of the survey respondents who manage forests, 48 per cent of our fibre received came from suppliers who have attained certification from ISO 14001, CSA, SFI and FSC systems. Norske Skog Canada will give preferred supplier status to companies that take a leadership role in forest management practices in the province.

The Company also continues to be a leader in the use of alternative waste fibres, such as sawdust and log sort debris. In the process, the suppliers of waste fibres are able to improve their environmental performance.

Norske Skog Canada is a member of the Certified Forest Products Council, a non-profit organization that connects its members with the growing market for certified forest products. The Company's vice-president, corporate affairs serves as a director on the council.

Verification of Forest Management Practices To supply its three mills in British Columbia, the Company purchases wood fibre from independent suppliers, primarily solid wood manufacturers. Approximately 86 per cent of the Company's fibre supply purchases consist of sawmill wood chips and sawdust – the residuals from lumber manufacture that would otherwise be burned or disposed of in landfills. The remaining 14 per cent are derived from a combination of pulp logs – logs that are defective or otherwise unsuitable for lumber manufacture – and deinked pulp recycled from old newspapers and magazines.

Respondents to the Company's survey of fibre suppliers represent 81 per cent of the fibre supplied to the Company's three operations in fiscal 2000. Approximately 89 per cent of respondents manage forests while the remainder consists of independent re-manufacturing plants, shake and shingle mills and custom cut sawmills. The Company worked with PricewaterhouseCoopers in developing the verification process.

Plans and Progress

2000	2001
Environmental Management	
■ Obtained ISO 14001 registration for the paper operations at Elk Falls. ■ Reregistered the pulp operations under ISO 14001.	■ Conduct the sixth round of compliance audits. The audits are performed by a third party. ■ Develop a 10-year strategic plan for reduction of greenhouse gas emissions.
Reducing Waste	
■ Reduced fibre losses at Elk Falls and Crofton, contributing to reduced generation of solid waste. ■ Started operation of new landfill at Mackenzie. ■ Completed a number of modifications to Mackenzie's recausticizing plant to reduce lime mud waste discharged to landfill. ■ Filed an application for a permit for Block 2 landfill at Crofton.	■ Complete upgrade of a brown stock screening system at Mackenzie to reduce fibre losses. ■ Continue to investigate alternative uses for solid waste from the Company's mills. ■ Assess ways to reduce flyash volumes at Elk Falls. ■ At Mackenzie, complete the installation of sludge screw presses to reduce landfill weight, and build a solid waste handling facility.
Safeguarding Water	
■ Finalized removal of accumulations from the second basin of Mackenzie's secondary treatment and returned the basin to operation. ■ At Elk Falls, completed the effluent recirculation project for the No. 1 bleach plant. ■ Completed a stormwater collection system at Crofton. ■ At Elk Falls, replaced a log bridge with a steel span over a fish sensitive creek.	■ Complete installation of oxygen bleaching at Mackenzie to reduce AOX levels in effluent. ■ Collect water treatment plant backwash at Crofton. ■ Improve recording system for inspection and maintenance of tanks at Elk Falls.
Improving Air Quality	
■ Completed Phase 2 of Elk Falls' NCG system upgrade. ■ Completed a project to collect batch digester fugitive emissions. ■ Implemented the first phase of a TRS collection system and upgraded the operation of the lime kiln to reduce TRS emissions at Crofton. ■ Replaced ammonia with liquid urea at Crofton and Elk Falls.	■ Complete installation of a wet electrostatic precipitator on the No. 5 boiler at Elk Falls. ■ At Elk Falls, investigate a system to replace the strong black liquor system with oxygen. ■ Optimize operation of the power boiler at Mackenzie to reduce particulate emission and energy use. ■ Implement Phase 2 of the TRS collection system at Crofton to further reduce TRS emissions.

The following data and statements relating to the survey of fibre suppliers have been reviewed by PricewaterhouseCoopers.

Suppliers responding to the survey who manage forests represent 72 per cent of the fibre supplied to the Company's three operations. Each company surveyed conducts internal audits of their forest practices. The companies must also undergo inspections administered by the provincial government under the Forest Practices Code. In aggregate, 7,459 inspections were conducted at the operations of the suppliers surveyed. There were 62 citations for violations of the Forest Practices Code, none of which caused environmental damage. This performance represents an overall 99.2 per cent compliance rate with the Forest Practices Code.

Highlights from the suppliers who manage forests:

- Alternatives to clear cut silvicultural methods were practised on an average of 33 per cent of their total harvest.
- Where clear cut silvicultural systems were used, the average opening was 25 hectares.
- Seventy-two per cent of supply is from respondents who indicated they will reduce the use of clear cut silvicultural systems in the future in favour of alternative systems such as selection, variable retention or shelterwood.
- Planting as the primary means of reforestation occurred on 85 per cent of sites harvested, typically with more than one species of tree. The remainder was regenerated naturally, or in combination with planting.
- Forty-eight per cent of the fibre supply was from suppliers who have attained certification under a program that is recognized in the international marketplace.
- An additional 43 per cent of the fibre supplied was from those suppliers who are pursuing or considering certification. Ninety per cent of respondents have a corporate policy which addresses sustainable forestry issues.

The Coast Forest Conservation Initiative

The Company is also involved in the Coast Forest Conservation Initiative to resolve forest management issues on the Central and North Coast of British Columbia. Major environmental groups and four BC forest companies have agreed to set aside traditional differences and work together with other stakeholders to develop an ecosystem management framework for the forests in this region. Our involvement reflects our Company's belief that long-term solutions must replace perennial conflict if we are to realize fundamental and lasting change in forest management.

The project, known as the Joint Solutions Project, is focused on identifying a feasible ecosystem management solution that integrates and balances the social, cultural, economic and ecological needs of the region. This will assist decision-making bodies in public land use planning processes. The Joint Solutions Project is an unprecedented first attempt by forest companies and environmental groups in BC to jointly develop a model for conservation and management of forests with high environmental values.

Environmental Management

In November, the environmental management system of Elk Falls paper operation obtained ISO 14001 registration. Crofton is pursuing a single, site-wide environmental management system as part of the reintegration of pulp and paper operations. It expects to achieve ISO 14001 for the paper operations by July 2001. During the year, the three pulp operations were reregistered under ISO 14001, after completing ISO maintenance audits.

The Company is conducting its sixth round of biennial compliance audits in 2001. These audits focus on compliance with government regulation and Company policy, and have been performed by a third party every second year since 1990.

Reducing Waste

During the year, both Crofton and Elk Falls reduced fibre losses, contributing to a reduction in the generation of solid waste. The addition of a brown stock screening system at Mackenzie this spring will also reduce fibre losses, meaning less solid waste will be produced. The three mills are also investigating better boiler combustion conditions.

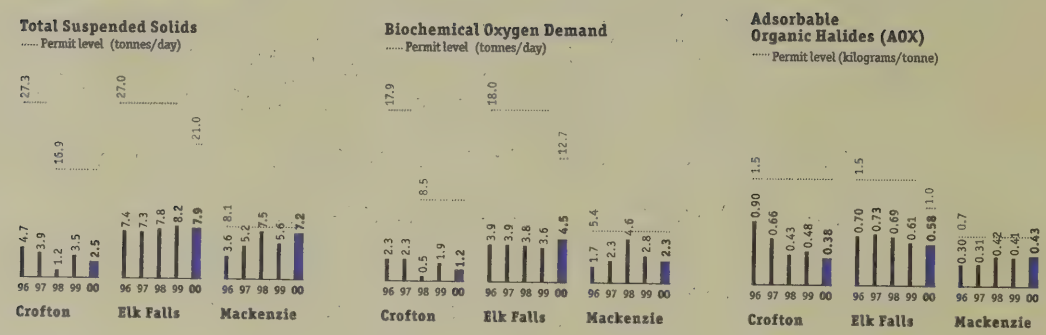
The mills continue to conduct experiments using treatment sludge as a soil additive. A composting trial using primary and secondary sludge is underway at Crofton.

Crofton filed an application with the Agricultural Land Commission for the Mann Road landfill site and also started construction of a new recaust waste landfill, scheduled for completion in the fall of 2001.

The Mackenzie mill is installing sludge presses, which will be operational this spring. They will cut landfill weight by reducing the moisture content in sludge. Mackenzie will also improve its handling of solid wastes with the construction later this year of a solid waste handling facility.

Effluent

Fiscal 1998 results were affected by a nine-month strike at the Company's manufacturing facilities.
1996-1999: fiscal years (July 1-June 30)
2000: calendar year (January-December)



Safeguarding Water

Mackenzie is installing an oxygen bleaching process that partially substitutes low-cost oxygen for high-cost chlorine dioxide early in the bleaching process, reducing overall chemical costs. When completed this summer, the process is expected to reduce Mackenzie AOX levels by approximately 20 per cent. Elk Falls is also considering the installation of oxygen bleaching.

The Company's mills completed the second phase of the Environmental Effects Monitoring program in 2000 with submissions to Environment Canada on various receiving water surveys, including insect life in lake-bottom sediment at Mackenzie, oyster studies at Crofton and a shore-based mussel study at Elk Falls. The studies showed no causal relationship between mill effluent at normal dilution levels and impact on the environment. Crofton and Elk Falls continue to monitor dioxin levels in crabs and ocean sediments.

The second basin of the Mackenzie mill's secondary treatment system was returned to operation in October, following removal of an accumulation of sludge undertaken to reduce furan levels. A partial bypass is in place to ensure compliance as the basin's internal operating conditions stabilize. The sludge has been disposed of in the new lined landfill at Mackenzie.

During the last six months of 2000, Crofton completed the installation of a stormwater collection system from a portion of the mill site. With the new system, stormwater from the entire mill site is collected and treated in the secondary effluent treatment system. The mill is in the process of collecting the backwash effluent from the water treatment plant to eliminate discharge into a nearby estuary.

Effluent

For the six months July 1 to December 31, 2000

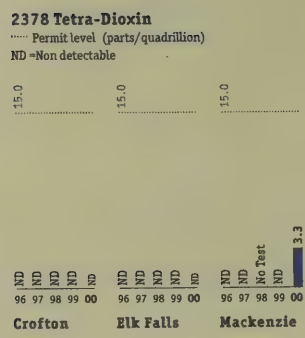
Total Suspended Solids (TSS) Following non-compliance of TSS that occurred during the return to service of the second basin at Mackenzie, a partial bypass was put in place to ensure compliance as the basin's internal operating conditions stabilize. Crofton and Elk Falls had no TSS exceedances during the six months.

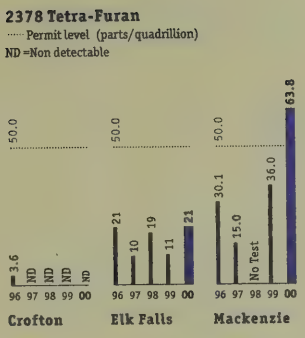
Biochemical Oxygen Demand (BOD) Mackenzie experienced no BOD exceedances during the six months, following the implementation of ongoing monitoring combined with the reopening of the second basin in October. Neither Crofton nor Elk Falls had any BOD exceedances during the six months.

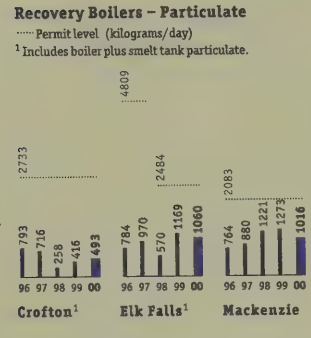
Toxicity Mackenzie passed all bioassay tests during the year. During December, Crofton experienced one water flea toxicity failure of its cooling water effluent stream. A follow-up investigation was not able to pinpoint the cause of the problem. The discharge continues to be closely monitored to determine what additional actions should be taken. During July, Elk Falls experienced four water flea toxicity failures and one trout toxicity failure of its treated effluent. Follow-up action indicated the failures were the result of microbe nitrogen deficiency and BOD overload. Actions were taken to address this issue. Work continues to verify the cause of the toxicity failures. The toxicity tests are conducted by independent laboratories.

Air Emissions

1996-1999: fiscal years (July 1-June 30)
2000: calendar year (January-December)







Adsorbable Organic Halides (AOX) The installation of oxygen bleaching at Mackenzie in 2001 will offset a marginal increase in its AOX level in 2000 over prior years. The increase relates to additional chlorine dioxide used in manufacturing sawdust-based pulps. (Mackenzie added a new digester in fiscal 1997 to manufacture sawdust pulps). All mills are currently meeting the new U.S. Environmental Protection Agency standards of 0.623 kg per tonne. AOX is a standardized test to measure the amount of chlorinated organic material in wastewater.

Dioxins and Furans Mackenzie experienced furan exceedances in October and December related to a small amount of residual sludge at the edge of the basin after sludge accumulations were removed. A partial bypass is in place to ensure compliance as the basin's internal operating conditions stabilize. Both Crofton and Elk Falls operated well within federal regulation levels for dioxins and furans.

Air Quality Improvement

The Company has undertaken several major capital projects to improve air quality at the three mills and to improve operational performance. In December, Crofton completed a $10 million dilute TRS collection system, which – once fully operational in April – is expected to reduce total TRS emissions by 70 per cent. A second phase of the system will collect additional TRS sources when it's completed in late 2001. The mill is also upgrading its power boiler to substantially reduce particulate emissions by July 1, 2001.

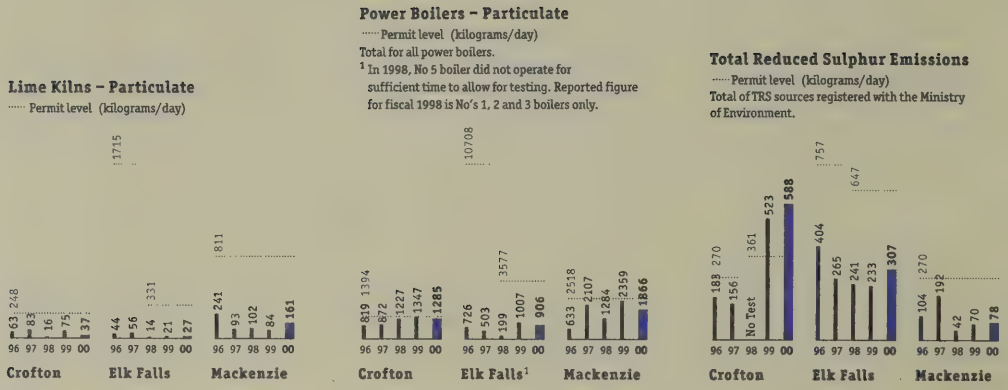
Elk Falls is installing a $20 million wet electrostatic precipitator on the No. 5 power boiler. This is expected to reduce particulate emissions by 85 per cent once completed in July 2001. The new precipitator uses leading technology and will virtually eliminate the haze conditions that occur in Campbell River during summer months. The mill's existing power boiler scrubber was retrofitted with atomizing nozzles in July 2000 as an attempt to marginally reduce haze emissions. The replacement of the mill's existing opacity meter and the installation of an additional opacity meter – combined with a camera installed in the town of Campbell River during the summer of 1999 – provides better information, enabling mill operators to make boiler adjustments to minimize haze conditions.

During the year, Elk Falls completed phase 2 of its NCG system upgrade to improve collection of non-condensable gases. The mill also completed a $2.5 million project to contain fugitive TRS emissions from the batch digester operation.

The Mackenzie mill is assessing potential plans to address exceedances of TRS and power boiler particulate and to improve combustion of the recovery boiler to reduce TRS emissions.

In the past six months, both Crofton and Elk Falls replaced ammonia with urea, eliminating the use of a hazardous chemical.

A gas-fired co-generation facility, developed by a third party adjacent to the Elk Falls mill, is now scheduled for start-up in the spring of 2001. As part of this project, the Company retired two small power boilers in December 1999. After the new facility is commissioned, the mill's fossil fuel boiler will be placed on stand-by mode.



During the year, the Company submitted a greenhouse gases emissions report to the Voluntary Challenge & Registry, a federal government program to encourage and track voluntary greenhouse gas emission reductions in Canada. Participation in the process helps the Company to qualify for baseline protection of greenhouse gas emission reductions achieved since 1990. The Company is also developing a 10-year strategic plan for addressing greenhouse gas emissions.

Over the past year, the federal government declared fine particulate a toxic substance and drafted proposed power boiler dioxin emission standards. The Company is reviewing how to deal with these new air requirements, which are expected to come into effect in 2006.

Emissions

For the six months July 1 to December 31, 2000

Total Reduced Sulphur (TRS) and Particulate Crofton had five TRS exceedances during the six months – all related to wood pulping processes and upset conditions in the mill's lime kilns. An upgrade of the lime kiln operation and the startup of the TRS collection system are expected to reduce emissions by about 70 per cent and bring the mill into compliance. Phase two of the TRS reduction program – expected to be completed by December 2001 – will collect additional TRS gases from the site and, therefore, further reduce odour. Crofton also had two power boiler particulate exceedances during the last six months of 2000. An upgrade of the boiler's precipitator in late September has helped to reduce particulate exceedances. The mill is investigating further upgrades to reduce power boiler emissions.

Elk Falls experienced no TRS exceedances during the six months, following completion of the NCG system in July. The installation of the wet electrostatic precipitator – scheduled to be in operation during July 2001 – will reduce haze conditions in Campbell River during summer months.

Mackenzie experienced a number of recovery boiler TRS emissions during the last six months of 2000. Measures are being reviewed to improve combustion and reduce emissions. The mill's recovery boiler exceeded the particulate compliance limit in August, but has operated within compliance following improvements made during the September maintenance shutdown.

The lime kiln exceeded particulate emissions in June and July, but has operated within compliance since August while the power boiler exceeded particulate emission limits in September, October and November. Upgrades to Mackenzie's power boiler operating procedures have resulted in improved particulate compliance. The Company continues to work closely with the Ministry of the Environment to ensure appropriate solutions are implemented.

We have what it takes to go
from
end
to end.

Business Highlights

This year, we'll concentrate on pulp and paper markets with the greatest revenue potential and where we can add the most value to customers. The reintegration of the Company's paper and pulp operations will complement our strategy to simplify business processes and achieve greater operational efficiencies.

Production Capacities

Annual Capacity

Printing Papers

Newsprint and groundwood specialties **940,000 tonnes**

Annual Mill Capacity

Crofton	430,000 tonnes
Crofton, BC	
Elk Falls	510,000 tonnes
Campbell River, BC	

Newsprint	645,000 tonnes
Hi-brites	145,000 tonnes
Directory	150,000 tonnes

Newsprint is produced in basis weights from 43 to 48.8 gsm. Hi-brites are produced in basis weights from 45 gsm to 52 gsm. Directory papers are produced in basis weights as low as 29.3 gsm.

End Uses Newspapers, telephone and specialty directories, newspaper inserts, retail flyers and catalogues.

Annual Capacity

Market Pulp

780,000 tonnes

Annual Mill Capacity

Crofton	340,000 tonnes
Crofton, BC	
Elk Falls	210,000 tonnes
Campbell River, BC	
Mackenzie	230,000 tonnes
Mackenzie, BC	

Includes 273,000 tonnes of sawdust-based pulp.

End Uses

NBSK Manufacture of lightweight publication grades, premium tissue and select specialty products.

Triax™ (sawdust-based pulp) Manufacture of private label tissue and printing and writing grades.

Annual Capacity

Containerboard

105,000 tonnes

Annual Capacity

Elk Falls	105,000 tonnes
Campbell River, BC	

Primarily whitetop linerboard.

End Uses Product packaging.

We have what it takes to go
from
end
to end. The right
business strategy.
5 LB / 2.3 KG
Chinese Mandarin Oranges
中國蜜柑
LOTUS BRAND
The right products.
The right skills.
Constant attention
to detail.
THE TELUS PAGES
your source for over 70 years
Vancouver
Valid until August 2001
The desire and ability to
succeed in a competitive
marketplace. And we know
our customers, from end
to end.

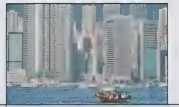
Business Highlights

This year, we'll concentrate on pulp and paper markets with the greatest revenue potential and where we can add the most value to customers. The reintegration of the Company's paper and pulp operations will complement our strategy to simplify business processes and achieve greater operational efficiencies.

Regular safety meetings at the Company's operations – attended by hourly and staff representatives – are helping us advance our safety program. Safety performance improved significantly in 2000; and we are working to improve it even further in 2001.

Lost Time Injuries
per million hrs.
12-month moving average

We expect newsprint sales to remain strong in 2001 with virtually all our tonnage destined for our preferred markets of North America, Asia and South America. We're taking some new steps to improve our access into fast-growing offshore markets. For example, in Asia, we've contracted Pan Asia Paper to act as our distributor and to provide marketing assistance, relying on their intimate knowledge of the Asian markets. Pan Asia Paper, which is one-third owned by Norske Skog ASA, is the largest producer and seller of paper in Asia.



Our target markets are North America, Asia and South America. Average sales realizations for the Company's newsprint and groundwood specialty printing papers increased by approximately $195 per tonne, or 29 per cent, from the corresponding period of 1999.

Our affiliation with Norske Skog ASA, a global paper and pulp organization with an international reputation for operating excellence, provides the opportunity for us to share best practices on technical and production issues. We will also share in "win-win" benefits that we can achieve by working together on common areas of interest such as procurement and transportation.

We've also asked Norske Skog USA to act as our sales agent for hi-brite products, trading on their expertise in the highly-competitive North American specialty papers market.

We've increased production capacity for our Catalyst™ directory paper by 40,000 tonnes. We expect to boost sales of directory by 25 per cent in 2001.

Directory Paper Production Capacity
tonnes

To ensure our newsprint delivers maximum value we will continue to work closely with major North American publishers. In directory, we're dedicating more production capacity for this stable, higher margin product. We expect to be able to increase directory sales by 25 per cent in 2001.

We also expect to improve the profitability of our hi-brite specialty products by only producing hi-brites on one dedicated paper machine at Elk Falls and by reducing the number of paper grades from 13 to four.

Double felting of the No. 2 pulp machine at Crofton added to the improved efficiency of the mill, resulting in record pulp production at Crofton for the last six months of 2000.

In our pulp business, we continued to focus our high strength NBSK on target segments in the lightweight publications and premium tissue sectors. For Triax™, our sawdust-based pulp, we developed new outlets in Europe in both the printing and writing and private label tissue sectors to compensate for slow demand in Asia. In containerboard, we were fully sold, setting record mill net returns as we executed a strategy that moved our product line to 100 per cent whitetop production. In January 2001, we launched our next generation SilverLiner™ containerboard. Its brighter and smoother printing surface will enable sharper graphics, an important consideration for product packaging.

Production Capacities

	Annual Capacity
Printing Papers	
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Annual Mill Capacity	
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Crofton, BC	
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	Annual Capacity
Containerboard	**105,000 tonnes**
Annual Capacity	
Elk Falls	105,000 tonnes
Campbell River, BC	

Primarily whitetop linerboard.

End Uses Product packaging.

Results of Operations

Change of Year-End

Effective July 1, 2000, the Board of Directors approved a change of the Company's year-end from June 30 to December 31 to coincide with the year-end of its 50.8 per cent shareholder, Norske Skogindustrier ASA.

Regulatory authorities require that, in the event of a change in a company's year-end, the financial statements and Management's Discussion and Analysis provide a comparison of the two most recent audited fiscal periods. With respect to the Company, these periods are:

- the six-month fiscal year ended December 31, 2000; and
- the year ended June 30, 2000.

The following tables also summarize the unaudited results for the six months ended December 31, 1999 and the 12 months ended December 31, 2000.

Summary of Operating Results

(in millions of Canadian dollars)	6 Months Ended Dec. 31, 2000 Audited	6 Months Ended Dec. 31, 1999 Unaudited	12 Months Ended Dec. 31, 2000 Unaudited	Year Ended June 30, 2000 Audited
Product Sales				
Newsprint & Specialties	$ 401	$ 303	$ 738	$ 641
Pulp & Containerboard	328	271	670	612
	$ 729	$ 574	$ 1,408	$ 1,253
Operating Earnings (Loss)				
Newsprint & Specialties	$ 47	$ (14)	$ 46	$ (16)
Pulp & Containerboard	65	42	146	124
	112	28	192	108
Other Income	21	5	43	27
Income Taxes	50	14	72	36
Net Earnings	$ 83	$ 19	$ 163	$ 99
Cash Provided by Operations	$ 170	$ 16	$ 346	$ 191
Additions to Fixed Assets	$ 58	$ 25	$ 91	$ 57

Summary of Shipments

	6 Months Ended		12 Months Ended	Year Ended
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	June 30, 2000
Product Shipments				
Newsprint & Specialties (m tonnes)	**458**	447	920	909
Pulp (m tonnes)[1]	**321**	358	686	723
Containerboard (m tonnes)	**50**	52	107	109

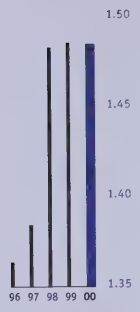
Note:
1 Excludes inter-segment sales of pulp.

Comparison of Earnings

A comparison of the results of the six-month fiscal year ended December 31, 2000 to the year ended June 30, 2000 follows. In addition, a comparison of the results of the six-month fiscal year ended December 31, 2000 to the six months ended December 31, 1999 is provided. The emphasis is on comparing the results of the six-month fiscal year of 2000 to the corresponding period of 1999. The Company's business segments are not subject to significant seasonal fluctuation.

Improving economic conditions in Asia and Latin America, continued growth in demand in North America and Europe and declining customer and producer inventories resulted in an improved supply/demand balance for groundwood printing papers in late 1999. North American newsprint demand was firm in 2000 because of continued growth in domestic consumption resulting from increased advertising lineage. Increased demand levels in Asia and Latin America, coupled with decreased supply from Asia, resulted in a higher level of net exports of newsprint from North America. Newsprint prices, which had been under pressure during the first half of 1999, began to improve in the fourth quarter of 1999 and prices for the Company's groundwood printing papers began to improve in the first quarter of 2000.

The recovery in pulp market conditions and prices, which became apparent in the second quarter of 1999, accelerated during the Company's fiscal year ended June 30, 2000. With pulp producer inventories declining to historically low levels and demand from Asia increasing, market conditions tightened throughout the year ended June 30, 2000. The strength in pulp markets eased during the second half of 2000 and pulp producer inventories rose despite significant industry downtime.



Canadian / US Dollar Exchange
($Cdn / $US)

Norske Skog Canada Limited recorded net earnings of $83 million, or $0.66 per Class A common share, in the six-month fiscal year of 2000. Net earnings of $99 million, or $0.80 per Class A common share, were recorded for the year ended June 30, 2000. The results for the six-month fiscal year of 2000 include recognition of $3 million for benefits related to the utilization of acquired tax losses. The fiscal 2000 results include recognition of $21 million for benefits related to the utilization of acquired tax losses, partially offset by an expense of $9 million after tax for costs in connection with the proposal by the Company to acquire the Paper Division assets of Fletcher Challenge Limited. Excluding the unusual items, net earnings for the six-month fiscal year of 2000 were down $7 million from the year ended June 30, 2000 as a result of the shorter fiscal period.

The Company's net earnings for the six-month fiscal year ended December 31, 2000 improved significantly from the same period of 1999 as a result of higher prices for the Company's principal products, higher newsprint and specialties sales volumes and strengthening in the U.S. dollar from an average of C$1.48 to C$1.50. This was partially offset by lower pulp sales volumes and higher fibre and energy costs which affected both of the Company's business segments.

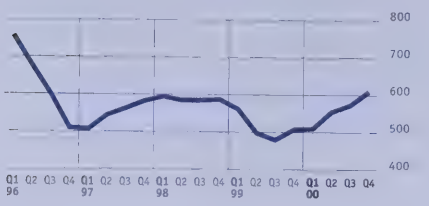
Net earnings for the six-month fiscal year of 2000 increased by $64 million, or $0.51 per share, from net earnings of $19 million, or $0.15 per share, for the corresponding period of 1999. The results for the six months ended December 31, 1999 included an expense of $9 million after tax for costs in connection with the proposal by the Company to acquire the Paper Division assets of Fletcher Challenge Limited. Excluding the unusual items, net earnings for the six-month fiscal year of 2000 of $80 million were up $52 million from the six months ended December 31, 1999.

Sales for the six-month fiscal year of 2000 were $729 million compared with $1.25 billion for the year ended June 30, 2000. As compared to the same six-month period in 1999, sales increased by 27 per cent with the change in product sales by business segment shown below:

	Sales 6 Months to December		Increase (Decrease) from 1999			
(in millions of dollars)	2000	1999	Total Change	Sales Volume	Price	Foreign Exchange
Newsprint & Specialties	$ 401	$ 303	$ 98	$ 8	$ 84	$ 6
Pulp & Containerboard	328	271	57	(26)	78	5
	$ 729	$ 574	$ 155	$ (18)	$ 162	$ 11

Newsprint Prices

Based on average quarterly prices in US$ per tonne
Average US West Transaction Price – 48.8 gram. Source-RISI



	US$ per Tonne			
Year	Q1	Q2	Q3	Q4
1996	757	677	600	510
1997	507	545	563	583
1998	595	585	585	588
1999	562	498	480	508
2000	510	555	573	610

The Company recorded operating earnings of $112 million in the six-month fiscal year of 2000, compared to $108 million in the year ended June 30, 2000. Operating earnings improved $84 million from the six months ended December 31, 1999.

Newsprint and Specialties Operating earnings for newsprint and specialties of $47 million were recorded in the six-month fiscal year of 2000. An operating loss of $16 million was incurred in the year ended June 30, 2000. Operating earnings for the six months of 2000 were up $61 million from the operating loss of $14 million for the six months ended December 31, 1999.

Average benchmark prices for newsprint were up by approximately 20 per cent from levels realized in the second half of 1999. Global demand for newsprint increased by 4.3 per cent in calendar 2000, while newsprint consumption by daily newspapers in the United States increased by 0.8 per cent. The continued strength of the U.S. economy and consumer optimism resulted in an increase of approximately 1.2 per cent in newsprint consumption in the United States in 2000. Retail and classified advertising remained healthy, while U.S. newspaper circulation declined slightly. By the end of 1999, the Asian newsprint market showed clear signs of tightening. Improving economic conditions throughout Asia caused a recovery in pagination and circulation, resulting in an increase in newsprint consumption in 2000 of approximately 10 per cent, following a 7.5 per cent increase in 1999. As a result of tight supply conditions in the region, net imports of newsprint to Asia increased by approximately 270,000 tonnes, or 18 per cent, in 2000, compared to an increase of approximately 230,000 tonnes, or 18 per cent, in 1999.

Newsprint prices stabilized in the third quarter of 1999 after declining by approximately US$100 per tonne in western North America in the first half of 1999. Strong consumption in North America and improving demand in Asia led to a US$40 per tonne increase in western North American newsprint prices, effective October 1, 1999. Newsprint prices in Asia increased by a similar amount on January 1, 2000, but remained below prices in North America. With advertising lineage robust, increasing exports and declining imports from offshore, a further newsprint price increase of US$50 per tonne took effect on April 1, 2000, in both western North America and Asia. Newsprint prices in Asia increased by US$60 per tonne in July and prices in the Company's main western North American market increased by US$40 per tonne on September 1, 2000. Newsprint prices in Asia increased by a further US$50 per tonne in October 2000 and are above those in North America.

Prices for groundwood specialty paper followed the trend in newsprint pricing. A US$40 per short ton price increase for the Company's :express hi-brite paper was implemented in both January and May 2000. This was followed by a price increase of approximately US$50 per short ton in September 2000. A US$45 per short ton price increase for the Company's :advance™ soft-nip calendered paper took effect in March 2000 and, depending on basis weight, a US$45 to US$50 per short ton price increase was implemented in August 2000. The Company's Catalyst™ directory price improved slightly during 2000, with long term contracts and annual pricing arrangements in place with major North American customers.

Total shipments of newsprint and groundwood specialties increased to 458,000 tonnes in the six months of 2000 from 447,000 tonnes in the six months ended December 31, 1999. Sales of directory paper from Crofton decreased to 68,000 tonnes in the six months of 2000 from 76,000 tonnes one year earlier. Sales of higher brightness groundwood specialty grades from Elk Falls increased to 71,000 tonnes in the six months of 2000 from 67,000 tonnes the previous year. Average sales realizations for the Company's newsprint and groundwood specialty printing papers increased by approximately $195 per tonne, or 29 per cent, from the corresponding period of 1999.

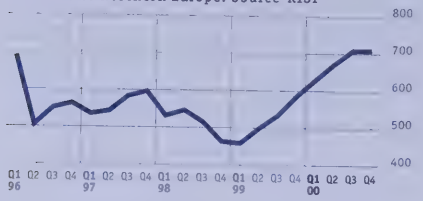
Total newsprint and groundwood specialty printing paper production for the six months of 2000 was 451,000 tonnes, compared to 446,000 tonnes in the six months ended December 31, 1999. Despite an improvement in controllable cost elements, unit operating costs were 9 per cent higher in the six months of 2000. Increased production volume, improved operating efficiency, lower kraft usage and mill and overhead cost reductions were more than offset by higher fibre and energy costs, up 5 per cent and 15 per cent, respectively.

Paper production at Crofton increased by 7 per cent to 211,000 tonnes in the six months of 2000, representing a 98 per cent operating rate. At Elk Falls, paper production decreased by 3 per cent to 240,000 tonnes in the six months of 2000, representing a 98 per cent operating rate.

Pulp and Containerboard Operating earnings of $65 million were recorded for pulp and containerboard in the six months of 2000, compared to $124 million in the year ended June 30, 2000. Operating earnings for the six months of 2000 improved $23 million from operating earnings of $42 million in the six months ended December 31, 1999.

NBSK Pulp Prices

Based on average quarterly prices in US$ per tonne
Average Price to Contract Buyers –
Delivered to Northern Europe. Source-RISI



	US$ per Tonne			
Year	Q1	Q2	Q3	Q4
1996	692	507	553	565
1997	537	545	585	598
1998	533	548	517	465
1999	460	500	535	587
2000	630	673	710	710

World chemical pulp demand totaled approximately 37 million tonnes in 2000, an increase of 3 per cent from the 1999 level, with more than one-half of the increased demand coming from Europe. Market pulp supply increased by approximately 4.5 per cent in 2000.

Average northern bleached softwood kraft ("NBSK") pulp prices for the six months of 2000 were up by approximately 27 per cent from the levels prevailing in the same period of 1999.

During the year ended June 30, 2000, NBSK pulp price increases occurred during each quarter in the United States and Europe, with prices rising in the U.S. and Europe by US$140 and US$160 per tonne, respectively, over the previous year's levels. NBSK pulp prices rose five times in Japan in the year ended June 30, 2000, up US$170 per tonne from the price level in place in June 1999. By June 2000, NBSK prices in Japan were higher than prices in the United States and Europe. Spot market prices also showed significant improvement in the year ended June 30, 2000. NBSK pulp prices increased by US$30 per tonne in all markets in July 2000, but the strength in pulp markets eased during the six months of 2000. NBSK pulp prices declined by US$40 per tonne in Japan in December 2000, reflecting weak pricing in Asia. This brought NBSK pulp prices in Japan to below price levels in the United States and Europe. Hardwood pulp prices declined in excess of US$150 per tonne in some markets in the fourth quarter of 2000 as Indonesian suppliers competed aggressively for market share, affecting sales realizations for the Company's sawdust-based pulps in those regions. Spot market prices deteriorated in the second half of 2000 and closed the year below list price levels. Norscan producer pulp inventories increased by approximately 695,000 tonnes, or 65 per cent, in the second half of 2000.

The Company's total pulp shipments decreased to 321,000 tonnes in the six months of 2000 from 358,000 tonnes in the corresponding period of 1999. Sales of sawdust-based pulp from Elk Falls and Mackenzie decreased to 95,000 tonnes in the six months of 2000 from 129,000 tonnes one year earlier. Average pulp sales realizations were up by approximately $235 per tonne, or 36 per cent, from the same period a year earlier. Total pulp production was 351,000 tonnes in the six months of 2000, down slightly from 353,000 tonnes in the corresponding period of 1999, with all three pulp facilities taking market-related production downtime in the fourth quarter of 2000. Despite improved operational performance, particularly at Crofton, unit operating costs increased by 25 per cent in the six months of 2000 compared to the same period of 1999 as a result of increased fibre costs, up 34 per cent, and increased energy costs. Higher fibre costs in the six months of 2000 reflected the effect of higher pulp prices on fibre pricing and a lower proportion of sawdust-based pulp production resulting from market-related curtailment.

Pulp production at Crofton increased by 8 per cent to 156,000 tonnes in the six months of 2000, representing an operating rate of 95 per cent. In the six months of 2000, market pulp production at Crofton was curtailed by approximately 11,000 tonnes because of weaker market conditions. At Mackenzie, pulp production decreased by 10 per cent to 104,000 tonnes, for a 90 per cent operating rate. Production volume was affected in the six months of 2000 by the decision to slow the sawdust digester, resulting in curtailment of approximately 2,000 tonnes. Pulp production at Elk Falls decreased by 2 per cent to 91,000 tonnes in the six months of 2000, representing a 91 per cent operating rate as production was curtailed by approximately 11,000 tonnes.

Containerboard market conditions remained favourable in the six months of 2000 with demand and pricing relatively stable. Containerboard prices increased by US$40 per short ton in July 1999 and US$50 per short ton in February 2000 as a result of a strong North American economy, improved demand from Asia and the shutdown of capacity in the United States. Containerboard prices have remained stable since February 2000 as a result of industry consolidation and downtime taken by integrated producers to manage inventory levels.

Average containerboard sales realizations for the six months of 2000 were up by approximately $145 per tonne, or 19 per cent, from the levels prevailing in the corresponding period of 1999. The increase in sales realizations reflected an increased proportion of SilverLiner™ sales, higher product prices and customer and product rationalization. Containerboard sales volume decreased by 4 per cent to 50,000 tonnes. Higher value SilverLiner™ sales volume increased to 47,000 tonnes from 44,000 tonnes in the same period of 1999. Production declined by 2 per cent to 52,000 tonnes, representing a 100 per cent operating rate. Unit operating costs were 44 per cent higher in the six months of 2000 due primarily to increased fibre costs, up 50 per cent, and increased energy costs.

Market pulp and containerboard unit costs for energy were up 57 per cent in the six months of 2000, compared to the same period of 1999.

Other Income/Expense Other Income in the six-month fiscal year ended December 31, 2000 was $21 million compared to $27 million in the year ended June 30, 2000 and $5 million in the six months ended December 31, 1999. Other Income in the six months of 2000 included interest income of $27 million, partially offset by miscellaneous expense of $6 million. Other Income in the year ended June 30, 2000 was comprised of interest income of $38 million and non-operating income of $4 million, partially offset by miscellaneous expense of $2 million and costs of $13 million in respect of the proposed acquisition of the Paper Division assets of Fletcher Challenge Limited.

Liquidity and Capital Resources

Capital Resources

The Company's total capital is composed of:

(in millions of dollars)	December 31, 2000		June 30, 2000	
Future Income Taxes and Deferred Credits	$ 269	11%	$ 200	9%
Shareholders' Equity	2,165	89%	2,120	91%
	$ 2,434	100%	$ 2,320	100%

Note:
1 The Company had cash and short term investments of $930 million at December 31, 2000 and $855 million at June 30, 2000.

As of December 31, 2000, the Company and its subsidiaries maintained committed bank lines of $100 million, of which none was utilized.

The Company estimates that capital expenditures for the year ended December 31, 2001 will be approximately $90 million, of which $60 million is for projects in progress at the end of December 2000. These expenditures cover improvements to existing product lines, maintenance of business and environmental protection.

The Company's short term investments are managed under a Board-approved policy that was updated in October 1997, recognizing the significant increase in the size of the investment portfolio upon receipt of the Blandin proceeds. The policy provides for the efficient administration of cash surpluses and recognizes that credit quality and liquidity are of primary importance. Eligible investments are comprised of short term obligations of, or guaranteed by, the Canadian or certain provincial governments, major Canadian chartered banks, high-grade corporate issuers and related companies.

Cash Provided By Operations Cash provided by operations, before changes in non-cash working capital, was $194 million in the six months of 2000, compared to $253 million in the year ended June 30, 2000 and $95 million in the six months ended December 31, 1999. Cash provided by operations continued to improve as a result of higher product prices.

Operating working capital requirements were up by $24 million in the six-month fiscal year ended December 31, 2000, compared to an increase of $62 million in the year ended June 30, 2000 and $79 million in the six months ended December 31, 1999. The increase in working capital requirements in the six months of 2000 was due to an increase in accounts receivable as product prices increased, and an increase in pulp inventories, partially offset by an increase in accounts payable and accrued liabilities. After working capital changes, cash provided by operations in the six months of 2000 was $170 million, down from $191 million in the year ended June 30, 2000, but up from $16 million in the six months ended December 31, 1999.

Investing Activities Capital spending totaled $58 million for the six-month fiscal year ended December 31, 2000, compared to $57 million in the year ended June 30, 2000 and $25 million in the six months ended December 31, 1999. The increased level of capital expenditures in the six months of 2000 reflects major environmental project spending commenced during the period. Projects underway in the six months of 2000 and scheduled for completion in 2001 include a $19 million project at Elk Falls to control air emissions from the No. 5 power boiler. Capital spending is focused on maintenance of business investment and continues to be subject to a spending discipline emphasizing low risk, high payback profit-adding projects.

In prior years, the Company acquired from a related party, companies with non-capital and capital losses carried forward. The purchase price is subject to adjustment under certain conditions and $21 million was recorded in the six-month fiscal year ended December 31, 2000 in respect of such adjustments. The difference between the future tax benefit of these losses and the acquisition cost of the companies is recorded as a deferred credit. The deferred credit is amortized to income tax expense as the tax losses are utilized. In the six months of 2000, the amortization reduced income tax expense by $3 million (2000 – $21 million).

Dividends During the six months of 2000 and the corresponding period of 1999, cash dividends of $0.30 per Class A common share were paid. Cash dividends of $0.60 per Class A common share were paid in the year ended June 30, 2000.

Other

Uncertainties

Norske Skog Canada Limited produces and markets products that are sold in world markets. The Company seeks to differentiate its product lines from those of other producers by supplying specialty products that add value for customers. However, the Company's operating environment is subject to uncertainties, many of which are common to virtually all companies in the forest products industry in North America and also some that are more specifically applicable to the Company's operations based in British Columbia. A discussion of the principal uncertainties to which the Company is subject follows.

Product Prices The forest products industry is cyclical in nature. Markets for the Company's principal products are affected by fluctuations in supply and demand within each cycle, which in turn affect product prices. Demand for forest products has historically been determined by the level of economic growth and has been very closely tied to overall business activity and personal income. The Company's earnings are sensitive to price changes for its principal products, with the effect of price changes on newsprint and groundwood specialty grades being the greatest.

The effect of changes in product prices on the Company's net earnings is shown under Product Price Sensitivity on page 28.

Currency The profitability of the Company's operations is subject to fluctuations in foreign currencies, particularly the U.S. dollar in which most of the Company's sales are denominated. Fluctuations in foreign currencies affect the Company's competitive position in world markets. Apart from the value of the Canadian dollar relative to the U.S. dollar, the Company's competitiveness in world markets is also affected by the relative strength of the currencies of other producing countries. Under a Board-approved foreign exchange risk management program, the Company manages a portion of this exposure through the use of currency options and forward contracts to hedge anticipated future sales denominated in foreign currency.

The effect of a $.01 change in the value of the Canadian dollar relative to the U.S. dollar is shown under Exchange Sensitivity on page 28.

Pulp and Paper Fibre Supply Norske Skog Canada Limited's operations in British Columbia consume wood fibre which is purchased as either wood chips, sawdust or pulp logs. Fibre is acquired from independent suppliers, primarily under secure long term contracts.

Sawmill wood chips presently comprise approximately 64 per cent of the fibre supply for the Company's three pulp and paper operations in British Columbia. The remainder is composed of: pulpwood, 12 per cent; sawdust, 22 per cent; and recycled deinked pulp, 2 per cent.

Fibre for the Company's coastal mills, Crofton and Elk Falls, is acquired from approximately 50 independent mills, primarily as residual wood chips and sawdust from lumber operations located on the Coast and in the southern Interior of the province. The Mackenzie pulp mill is supplied with fibre from independent suppliers within the local region.

Five wood chip and sawdust suppliers provide approximately 47 per cent of the Company's fibre supply. The supply contracts with these companies were negotiated by the Company for indefinite terms ("evergreen") when certain of the Company's timber and processing assets were sold. In addition, the Company, through evergreen contracts with a coastal log producer, is able to secure additional coastal wood chip supply through sawlog sales made by it to coastal sawmills. These contracts provide an additional 14 per cent of the Company's fibre supply. Together, fibre purchased from these suppliers comprises approximately 61 per cent of the Company's fibre supply.

The remainder of the fibre requirements for the Company's three pulp and paper operations in British Columbia is sourced from independent suppliers, mainly under long term contracts. Fibre is purchased from suppliers at market prices or at prices determined under market-based formulas.

The Company presently has an adequate supply of fibre for its B.C. pulp and paper operations, and is repositioning its product lines and developing alternative sources to offset any future reduction in availability from existing sources.

Environment The operations of the Company are subject to a wide range of general and industry-specific environmental laws and regulations related to waste management. Environmental performance is monitored regularly by the Company. The Company believes that its facilities are operating in substantial compliance with applicable environmental laws and regulations.

The British Columbia provincial government's current pulp mill effluent regulations limit AOX discharges to 1.5 kilograms per tonne of pulp produced. The Company's facilities are operating within these limits. The B.C. provincial government has further mandated the elimination of AOX in mill effluent by December 31, 2002. Although technology is available to eliminate all AOX discharge at kraft pulp mills in British Columbia, capital and operating costs associated therewith are presently prohibitive. In early 1997, the provincial government indicated that it may re-examine the appropriateness of this regulation. In November 1997, the United States Environmental Protection Agency ("EPA") established AOX discharge limits for United States-based bleach kraft pulp mills at 0.623 kilograms per air-dried bleached tonne of production. Presently, all Company mills are in substantial compliance with the new EPA limits.

In April 2000, the Mackenzie mill was ordered by Environment Canada to take steps to stop the release of effluent containing furans into Williston Lake and to carry out dredging of the dump pond and second aeration basin on the mill premises in order to prevent the release of furans. The mill no longer generates effluent containing furans. However, furans contained in the historical accumulation at the bottom of the pond and basin have occasionally been released. The mill developed an action plan in consultation with both the federal and provincial regulatory authorities to carry out the required dredging to permanently eliminate the source of the released furans. The dredging was completed by October 10, 2000. In order to carry out the dredging and maintain effluent parameters within permitted levels, some curtailment in production was necessary.

All three of the Company's pulp and paper mills in British Columbia are making improvements to their air emissions. At Crofton, the first phase of an odour collection system was completed in January 2001. The final phase of the odour collection system is expected to be completed by December 31, 2001, further reducing air emissions. At Elk Falls, a precipitator is being installed on the No. 5 power boiler to minimize particulate emissions and haze in the community. At Mackenzie, improvements to the power boiler operating procedures have resulted in improved particulate compliance. The Company continues to work closely with the Ministry of the Environment to ensure appropriate solutions are implemented at the mills. Further improvements are expected to require some additional capital expenditure, but the Company should not be disadvantaged competitively with other producers in those regions in which it operates.

Recycled Containing Groundwood Paper Norske Skog Canada Limited is a major supplier of newsprint, directory and other groundwood printing papers to western North America. The most significant of these markets is the western United States where in three states – California, Arizona and Oregon – newspaper publishers and commercial printers are required by law to use a certain proportion of recycled containing paper. The current requirement is that 50 per cent of the paper contains 40 per cent or more recycled containing paper. While the other western states and Canada do not have legislated requirements for recycled containing paper, many printers and publishers are demanding some recycled containing paper as part of their supply mix.

The Company is currently meeting this market demand through the use of recycled pulp purchased from Newstech Recycling Inc., located in Coquitlam, B.C. This deinked post-consumer recycled pulp is mixed with virgin pulp furnish, primarily at the Crofton mill, to produce newsprint and directory paper that meets the legislated requirement.

Williston Lake Levels The Company has mitigation facilities to avert possible production interruption at its Mackenzie pulp operation in the event water levels in the Williston Lake reservoir recede below 2,145 feet above sea level. Should the lake level drop below 2,145 feet, the Company believes the mitigation facilities allow operation at a lake level as low as 2,130 feet.

Insurance Program The Company has an insurance program whereby it, with minor exceptions, insures only against 'catastrophic' losses. In consequence, it self-insures the first US$25 million of each loss. The Company believes that this level of exposure is manageable and cost effective.

Earnings Sensitivities

Norske Skog Canada's earnings are sensitive to fluctuations in prices for its products and in currency exchange rates.

Product Price Sensitivity Based on production capacities and exchange rates as at December 31, 2000, a US$10 per unit change in the net sales price of its principal products would affect the Company's annualized after-tax earnings as follows (in millions of dollars):

Newsprint and specialties – $10 change per tonne	$8.4
Pulp – $10 change per tonne	7.1

Exchange Sensitivity Based on anticipated 2001 sales volumes and prices, a $0.01 change in the Canadian dollar relative to the value of the U.S. dollar would affect the Company's after-tax earnings by approximately $5.6 million.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Norske Skog Canada Limited as at December 31, 2000 and June 30, 2000 and the consolidated statements of earnings, retained earnings and cash flows for the six months ended December 31, 2000 and the year ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and June 30, 2000 and the results of its operations and its cash flows for the six months ended December 31, 2000 and the year ended June 30, 2000 in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada

January 18, 2001

Consolidated Balance Sheets

(in millions of Canadian dollars)	December 31, 2000	June 30, 2000
Assets		
Current assets		
Cash and short term investments (note 2)	$ 929.7	$ 854.9
Accounts receivable	283.4	258.7
Inventories (note 3)	191.7	168.2
Prepaid expenses	5.0	3.8
	1,409.8	1,285.6
Fixed assets (note 4)	1,298.5	1,300.9
Other assets (note 5)	12.3	12.8
	$ 2,720.6	$ 2,599.3
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 196.3	$ 191.9
Employee future benefits (note 6)	90.1	87.2
Future income taxes (note 7)	233.4	182.8
Deferred credits (note 8)	35.6	17.4
	555.4	479.3
Shareholders' equity		
Share capital (note 9)	1,262.6	1,262.6
Retained earnings	902.6	857.4
	2,165.2	2,120.0
	$ 2,720.6	$ 2,599.3

Approved by the Board:

Russell J. Horner
Director

Jan A. Reinås
Director

Consolidated Statements of Earnings

(in millions of Canadian dollars, except per share amounts)	6 months ended December 31, 2000	12 months ended June 30, 2000
Net sales	$ 729.0	$ 1,253.3
Operating expenses		
Cost of products sold	526.7	974.2
Selling and administrative	30.5	56.5
Depreciation	59.8	114.3
	617.0	1,145.0
Operating earnings	112.0	108.3
Other expense (note 10)	(6.1)	(11.5)
Interest income	26.4	38.2
Earnings before income taxes	132.3	135.0
Income taxes (note 7)	49.8	35.6
Net earnings	$ 82.5	$ 99.4
Per share		
Net earnings	$ 0.66	$ 0.80

Consolidated Statements of Retained Earnings

(in millions of Canadian dollars)	6 months ended December 31, 2000	12 months ended June 30, 2000
Balance, beginning of period	$ 857.4	$ 832.5
Net earnings	82.5	99.4
Dividends	(37.3)	(74.5)
Balance, end of period	$ 902.6	$ 857.4

Consolidated Statements of Cash Flows

(in millions of Canadian dollars)	6 months ended December 31, 2000	12 months ended June 30, 2000
Cash provided by (used for):		
Operations		
Net earnings	**$ 82.5**	$ 99.4
Items not requiring cash:		
Depreciation	**59.8**	114.3
Income taxes	**48.0**	34.8
Employee future benefits	**2.9**	4.2
Other	**1.3**	0.7
	194.5	253.4
Change in non-cash working capital (note 11)	**(24.2)**	(62.3)
Cash provided by operations	**170.3**	191.1
Investment		
Additions to fixed assets	**(58.4)**	(57.2)
Proceeds from sale of fixed assets	**—**	2.1
Decrease in other assets	**0.2**	4.2
	(58.2)	(50.9)
Financing		
Dividends paid	**(37.3)**	(74.5)
Cash increase during period	**74.8**	65.7
Cash, beginning of period	**854.9**	789.2
Cash, end of period	**$ 929.7**	$ 854.9
Supplemental information:		
Income taxes paid	**$ 2.7**	$ 3.2
Non-cash investment activity – increase in deferred credits	**20.8**	—

1 Significant Accounting Policies

Effective July 1, 2000, the Company changed its fiscal year-end from June 30 to December 31. The Company changed its name from Fletcher Challenge Canada Limited to Norske Skog Canada Limited on December 15, 2000.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Basis of Consolidation The consolidated financial statements include the accounts of Norske Skog Canada Limited and all of its subsidiaries ("the Company").

Use of Estimates The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates.

Inventories Inventories, other than supplies which are valued at cost, are valued at the lower of average cost and net realizable value.

Fixed Assets Fixed assets are stated at cost.

Buildings, machinery and equipment are depreciated on a straight-line basis at rates that reflect estimates of the economic lives of the assets. The rates for major classes of assets are:

Buildings	2.5 – 5.0%
Pulp and paper machinery and equipment	5.0%

During periods of major production interruption, an obsolescence amount of 10% of normal depreciation is charged on manufacturing equipment.

No depreciation is charged on capital projects during the period of construction. Start-up costs incurred in achieving normal operating capacity on major capital projects are deferred and amortized over a five-year period.

Foreign Currency The majority of the Company's sales are denominated in foreign currencies, principally the U.S. dollar. Revenue and expense items denominated in foreign currencies are translated at the rates of exchange prevailing during the period. The monetary assets and liabilities of the Company's operations denominated in foreign currencies are translated at the period-end exchange rates. Gains or losses on translation of monetary assets and liabilities are reflected in net earnings for the period.

Derivatives The Company manages a portion of its foreign exchange exposure on foreign currency receipts through forward currency sales. Derivatives are used for hedging purposes in connection with an anticipated transaction or underlying asset and are not used for trading purposes. Gains and losses on hedges are deferred and recognized in earnings in the same period and in the same financial statement category as the income or expense arising from the corresponding hedged positions.

Income Taxes Income taxes are accounted for under the liability method. Future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the current tax rates and laws expected to apply when these differences reverse. The difference between the purchase price and tax basis of assets acquired in a business combination is a temporary difference. Future tax benefits, such as non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that substantive enactment or enactment occurs.

Employee Future Benefits The estimated cost for pensions and other post-retirement benefits provided by the Company to employees is accrued using actuarial techniques and assumptions, including an appropriate discount rate, during the employees' active years of service.

Comparative Figures Certain June 2000 comparative figures have been reclassified to conform with the presentation adopted for the current period.

2 Cash and Short Term Investments

	December 31, 2000	June 30, 2000
Cash and short term investments	$ 929.7	$ 554.9
Deposits with a wholly owned subsidiary of the majority shareholder	—	300.0
	$ 929.7	$ 854.9

Cash and short term investments include term deposits and commercial paper at market rates averaging 5.82% (June 2000 – 5.48%). The short term investments have a maturity date within five months of the acquisition date, are readily convertible into cash and are considered cash equivalents. The deposits with a wholly owned subsidiary of the majority shareholder are invested for terms of 30 days or less and at market rates averaging 6.08%. The deposits were collected when due subsequent to the June year-end.

3 Inventories

	December 31, 2000	June 30, 2000
Newsprint, specialties, pulp and containerboard	$ 93.3	$ 74.2
Wood chips and pulp logs	46.4	43.0
Operating and maintenance supplies	52.0	51.0
	$ 191.7	$ 168.2

4 Fixed Assets

	December 31, 2000			June 30, 2000
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Property, plant and equipment				
Newsprint and specialties mills	$ 1,202.9	$ 593.1	$ 609.8	$ 624.9
Pulp and containerboard mills	1,214.7	526.0	688.7	676.0
	$ 2,417.6	$ 1,119.1	$ 1,298.5	$ 1,300.9

5 Other Assets

	December 31, 2000	June 30, 2000
Investments and long term receivables	$ 9.8	$ 10.7
Deferred charges	2.5	2.1
	$ 12.3	$ 12.8

6 Employee Future Benefits

The Company maintains pension benefit plans, which include defined benefit and defined contribution segments, that are available to all salaried employees and to hourly employees not covered by union pension plans. Employees hired subsequent to January 1, 1994 enroll in the defined contribution segment.

The defined benefit segment provides a pension based on years of service and earnings. For the defined contribution segment, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings from those contributions. For the defined contribution segment, the Company's funding obligations are satisfied upon crediting contributions to an employee's account.

The Company provides other benefit plans consisting of group health care and life insurance benefits to eligible retired employees and their dependents.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit	
	Dec. 31, 2000	June 30, 2000	**Dec. 31, 2000**	June 30, 2000
Accrued benefit obligation				
Beginning of year	**$ 227.1**	$ 233.3	**$ 77.6**	$ 72.1
Service cost of defined benefit segment	**0.8**	1.6	**0.9**	1.6
Interest cost on accrued benefit obligation	**7.7**	14.1	**2.6**	4.6
Benefit payments	**(10.8)**	(20.5)	**(1.5)**	(2.7)
Actuarial loss (gain)	**1.4**	(1.4)	**0.1**	2.0
End of year	**226.2**	227.1	**79.7**	77.6
Plan assets				
Fair value at beginning of year	**226.0**	226.7	**—**	—
Actual return on plan assets	**11.9**	18.0	**—**	—
Service cost of defined contribution segment	**(1.6)**	(2.9)	**—**	—
Contributions	**1.6**	4.7	**1.5**	2.7
Benefit payments	**(10.8)**	(20.5)	**(1.5)**	(2.7)
Fair value at end of year	**227.1**	226.0	**—**	—
Funded status	**(0.9)**	1.1	**79.7**	77.6
Unrecognized amounts				
Transitional balance	**3.0**	3.2	**—**	—
Past service costs	**(2.0)**	(2.5)	**—**	—
Actuarial gain (loss)	**15.6**	13.2	**(5.3)**	(5.4)
Employee future benefits liability	**$ 15.7**	$ 15.0	**$ 74.4**	$ 72.2

The Company's net expense for Company-maintained benefit plans is:

Pension Benefit Plans	**6 months ended December 31, 2000**	12 months ended June 30, 2000
Current service cost	**$ 2.4**	$ 4.5
Interest cost	**7.7**	14.1
Expected return on plan assets	**(7.9)**	(16.4)
Amortization of unrecognized amounts	**0.3**	0.8
	$ 2.5	$ 3.0

Other Benefit Plans	6 months ended December 31, 2000	12 months ended June 30, 2000
Current service cost	$ 0.9	$ 1.6
Interest cost	2.6	4.6
Amortization of unrecognized amounts	—	0.1
	$ 3.5	$ 6.3

Actuarial assumptions used in accounting for the Company-maintained benefit plans are:

	December 31, 2000	June 30, 2000
Discount rate	7.0%	6.25%
Expected return on plan assets	7.5%	7.5%
Compensation increases	4.0%	4.0%

Unionized employees of the Company and its subsidiaries are members of industry-wide benefit plans to which the Company contributes a predetermined amount per hour worked by an employee. The pension expense for these plans is equal to the Company's contribution of $4.5 million in the year (June 2000 – $10.4 million).

7 Income Taxes

The components of income tax expense are as follows:

	6 months ended December 31, 2000	12 months ended June 30, 2000
Current	$ 1.8	$ 2.6
Future	50.6	54.0
Amortization of deferred credits on utilization of acquired tax losses	(2.6)	(21.0)
	$ 49.8	$ 35.6

The effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing these different income tax rates are shown below:

	6 months ended December 31, 2000		12 months ended June 30, 2000	
Income tax expense at Canadian statutory rates	$ 50.9	38.5%	$ 52.0	38.5%
Increase (decrease) in income taxes for:				
Non-taxable income and expenses	0.7	0.5	0.4	0.3
Amortization of deferred credits on utilization of acquired tax losses	(2.6)	(2.0)	(21.0)	(15.5)
Large corporations tax	0.8	0.6	2.6	1.9
Other	—	—	1.6	1.2
Income tax expense	$ 49.8	37.6%	$ 35.6	26.4%

The tax effects of temporary differences that give rise to significant future tax liabilities (assets) are as follows:

	December 31, 2000	June 30, 2000
Future tax liability		
Fixed assets	$ 296.7	$ 286.9
Future tax assets		
Non-capital loss carry-forwards	(26.3)	(68.6)
Employee future benefits	(34.9)	(33.8)
Other	(2.1)	(1.7)
	(63.3)	(104.1)
Net future income tax liability	$ 233.4	$ 182.8

8 Deferred Credits

	December 31, 2000	June 30, 2000
Deferred credits on unutilized acquired tax losses (note 13)	$ 35.6	$ 17.4

9 Share Capital

	December 31, 2000	June 30, 2000
Authorized		
150,000,000 Class A common shares without par value		
100,000,000 Class B preferred shares without par value		
Issued and outstanding		
124,189,252 Class A common shares	$ 1,262.6	$ 1,262.6
1,572,926 Series 1 Class B preferred shares	157.3	157.3
Less held by a wholly owned subsidiary	(157.3)	(157.3)
	$ 1,262.6	$ 1,262.6

10 Other Expense

	6 months ended December 31, 2000	12 months ended June 30, 2000
Abandoned acquisition costs	$ —	$ 13.0
B.C. corporation capital tax	2.6	3.7
Other (income) expense	3.5	(5.2)
	$ 6.1	$ 11.5

The Company incurred costs of $13.0 million in respect of the proposed acquisition of the operations and assets of the Paper Division of Fletcher Challenge Limited. Shareholder approval, which was a prerequisite for the transaction, was not obtained at the Extraordinary General Meeting held on November 2, 1999. Accordingly, the costs were included in other expense of the year.

11
Change in Non-Cash Working Capital

	6 months ended June 30, 2000	12 months ended December 31, 2000
Cash provided by (used for):		
Accounts receivable	$ (3.9)	$ (63.4)
Inventories	(23.5)	14.7
Prepaid expenses	(1.2)	2.0
Accounts payable and accrued liabilities	4.4	(15.6)
	$ (24.2)	$ (62.3)

12
Financial Instruments

Derivative Financial Instruments The Company sells its products internationally and is exposed to fluctuations in foreign currency exchange rates. The Company manages a portion of this exposure by the use of options and forward contracts to hedge anticipated future sales denominated in foreign currency.

Foreign currency options and forward contracts outstanding as at December 31, 2000 are as follows:

	Options					
	Floor		Ceiling		Forward Contracts	
Year of Maturity	US$ Amount	Minimum C$ Rate	US$ Amount	Maximum C$ Rate	US$ Amount	C$ Rate
2001	$ 48	1.5200	$ 48	1.5419	$ 192	1.4835
2002	15	1.4850	15	1.5150	159	1.4870
2003	30	1.5150	30	1.5400	66	1.5020

Credit Risk The Company is exposed to credit risk on accounts receivable from customers. Its customers are mainly in the newspaper publishing, commercial printing and paper manufacturing businesses. To manage its credit risk, the Company has credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. In certain offshore markets, the Company requires bank letters of credit or utilizes credit insurance.

The Company is exposed to credit risk on its short term investments. The Company manages this credit risk by investing in short term obligations of, or guaranteed by, the Canadian or certain provincial governments, major Canadian chartered banks, high-grade corporate issuers and related companies.

The Company is exposed to credit risk with counterparties to the Company's options and forward exchange contracts. The Company limits the possibility of non-performance by dealing with Canadian chartered banks or related companies.

Fair Value Estimated fair values of financial instruments, which differ from carrying values, are:

	December 31, 2000	
	Carrying Value	Fair Value
Forward currency options and forward contracts	$ 0.8	$ 9.9

Fair value of options and forward contracts is based on the quoted or estimated market rates from financial institutions.

13 Related Party Transactions

Related parties include Norske Skogindustrier ASA, the majority shareholder effective July 29, 2000 and Fletcher Challenge Limited, the majority shareholder up to and including July 28, 2000, together with their subsidiaries and affiliates.

Transactions or balances with related parties, not otherwise disclosed in these financial statements, are as follows:

	6 months ended December 31, 2000	12 months ended June 30, 2000
Norske Skogindustrier ASA		
Accounts payable	**$ 0.2**	$ —
Fletcher Challenge Limited ("FCL")		
Net sales	—	1.5
Accounts receivable	—	0.6

Product sales to related parties are in accordance with normal trade practices.

In prior years, the Company acquired, from wholly owned subsidiaries of FCL, companies with tax losses carried forward. The purchase price of these companies is subject to adjustment under certain conditions and $20.8 million is included in accounts receivable at December 31, 2000 and was received subsequent to the period-end ($12.6 million was received in the year ended June 30, 2000 in respect of such adjustments).

14 Commitments

The Company is committed to make the following future minimum payments under various operating leases in each of the years ended December 31:

2001	$ 3.5
2002	3.2
2003	3.1
2004	3.0
2005	3.0
Subsequent years	14.4
	$ 30.2

15
Segmented Information

The Company operates in two business segments:

Newsprint & Specialties – manufacture and sale of newsprint and groundwood specialty printing papers.

Pulp & Containerboard – manufacture and sale of softwood pulps and containerboard.

The segments are managed separately and all manufacturing facilities are located in Canada.

The accounting policies of the segments are the same as described in the Summary of Significant Accounting Policies in note 1. Segment performance is evaluated based on operating earnings (loss) before other income (expense), interest income and income taxes. Inter-segment sales consist of slush pulp transfers at market prices.

	Newsprint & Specialties	Pulp & Containerboard	Corporate & Eliminations	Consolidated
6 months ended December 31, 2000				
Net sales to external customers	$ 400.8	$ 328.2	$ —	$ 729.0
Inter-segment sales	—	37.5	(37.5)	—
Operating earnings	47.0	65.0	—	112.0
Depreciation	32.3	27.5	—	59.8
Assets	877.0	913.9	929.7	2,720.6
Current liabilities	70.3	126.0	—	196.3
Additions to fixed assets	17.4	41.0	—	58.4

	Newsprint & Specialties	Pulp & Containerboard	Corporate & Eliminations	Consolidated
12 months ended June 30, 2000				
Net sales to external customers	$ 640.7	$ 612.6	$ —	$ 1,253.3
Inter-segment sales	—	69.6	(69.6)	—
Operating earnings (loss)	(15.6)	123.9	—	108.3
Depreciation	61.6	52.7	—	114.3
Assets	841.0	903.4	854.9	2,599.3
Current liabilities	70.7	121.2	—	191.9
Additions to fixed assets	19.6	37.6	—	57.2

	6 months ended December 31, 2000		12 months ended June 30, 2000	
	Newsprint & Specialties	Pulp & Containerboard	Newsprint & Specialties	Pulp & Containerboard
Net sales by shipment destination				
Canada	$ 68.3	$ 31.8	$ 95.9	$ 70.2
United States	213.7	77.1	330.6	115.1
Pacific Rim	68.6	102.8	124.1	236.7
Europe and other	50.2	116.5	90.1	190.6
	$ 400.8	$ 328.2	$ 640.7	$ 612.6

Comparative Review 1996 – 2000

(Years Ended December 31)[1]

(millions of Canadian dollars) (unaudited)	2000	1999[2]	1998[2,4]	1997[2,4]	1996[2]
Earnings					
Net sales	$ 1,408.1	$ 1,071.1	$ 633.7	$ 626.3	$ 1,079.3
Cost of products sold	1,037.5	931.3	589.2	597.9	929.9
Selling and administrative	61.0	53.8	49.8	38.9	39.2
Depreciation	117.3	112.7	80.9	66.7	93.6
Operating earnings (loss)	192.3	(26.7)	(86.2)	(77.2)	16.6
Other income (expense)	(4.9)	7.9	3.3	(16.0)	(43.3)
Interest income	47.4	33.8	45.3	28.4	9.0
Earnings (loss) before income taxes	234.8	15.0	(37.6)	(64.8)	(17.7)
Income taxes (recovery)	71.7	(3.6)	(6.9)	(27.8)	(5.6)
Earnings (loss) from continuing operations	163.1	18.6	(30.7)	(37.0)	(12.1)
Earnings from discontinued operations, net of income taxes[3]	—	9.1	11.7	503.3	8.2
Net earnings (loss)	$ 163.1	$ 27.7	$ (19.0)	$ 466.3	$ (3.9)
Cash Flows[5]					
Cash provided by (used for) Operations					
Earnings (loss) from continuing operations	$ 163.1	$ 18.6	$ (30.7)	$ (37.0)	$ (12.1)
Depreciation	117.3	112.7	80.9	66.7	93.6
Income taxes	69.9	(12.8)	(2.7)	(34.7)	(12.4)
Employee future benefits	1.5	12.7	3.6	6.4	7.6
Other	1.5	0.8	1.1	1.5	13.2
	353.3	132.0	52.2	2.9	89.9
Change in non-cash working capital	(7.7)	(12.4)	(242.6)	99.4	124.4
	345.6	119.6	(190.4)	102.3	214.3
Investment					
Additions to fixed assets	(90.8)	(87.5)	(47.0)	(46.9)	(115.6)
Proceeds from sale of fixed assets	0.3	2.0	1.0	3.2	2.2
Investments and other	4.5	3.3	2.3	(56.6)	10.8
Net proceeds from sale of discontinued operations[3]	—	—	11.7	1,344.7	—
	(86.0)	(82.2)	(32.0)	1,244.4	(102.6)
Financing					
Repayment of long term debt	—	—	—	(75.0)	(52.3)
Increase (decrease) in current bank loans	—	—	—	(8.0)	8.0
Dividends paid	(74.5)	(74.5)	(74.5)	(74.5)	(74.5)
	(74.5)	(74.5)	(74.5)	(157.5)	(118.8)
Discontinued operations[3]	—	—	—	(112.6)	(18.8)
Increase (decrease) in cash	185.1	(37.1)	(296.9)	1,076.6	(25.9)
Cash, beginning of year	744.6	781.7	1,078.6	2.0	27.9
Cash, end of year	$ 929.7	$ 744.6	$ 781.7	$ 1,078.6	$ 2.0

Notes:

1 Effective July 1, 2000, the Company changed its year-end from June 30 to December 31. Accordingly, figures reported for previous years have been restated to be on a December 31 year-end basis for this comparative review.

2 As of July 1, 1999, the Company changed its accounting policies by retroactively adopting the new Canadian Institute of Chartered Accountants Recommendations for income taxes, employee future benefits and cash flows. Prior periods have been restated to be on a consistent basis.

3 In October 1997 and June 1997, the Company exited the coated paper and solid wood products businesses with the sale of its respective 100% interest in Blandin Paper Company and 51.6% interest in TimberWest Forest Limited. The 1998 and 1997 investment cash flows include proceeds from the sale of the discontinued operations.

4 The Company's results in 1997 and 1998 were affected by a nine-month strike at its manufacturing facilities which ended on April 18, 1998.

5 Cash is defined to include cash and short term investments.

6 Return on net assets = Net earnings before after-tax interest income (expense) / average net assets excluding cash

7 Return on common shareholders' equity = Net earnings / average shareholders' equity

8 Debt to capitalization ratio = (Debt / debt plus equity) to (equity / debt plus equity)

9 For purposes of calculating ratio of debt to capitalization, debt is defined as bank loans plus long term debt (including current portion) less cash, and equity is defined as shareholders' equity plus non-controlling interest.

10 EBITDA is defined as operating earnings before depreciation and excludes other income (expense) items.

Comparative Review 1996 – 2000

(Years Ended December 31)[1]

(millions of Canadian dollars, except for financial, statistical and volume data) (unaudited)	2000	1999[2]	1998[2,4]	1997[2,4]	1996[2]
Assets and Capitalization					
Cash and short term investments	$ 929.7	$ 744.6	$ 781.7	$ 1,078.6	$ 2.0
Non-cash working capital	283.8	255.3	226.3	(16.3)	75.1
Fixed assets	1,298.5	1,326.5	1,353.8	1,390.3	1,414.5
Investments and other	12.3	17.4	11.1	13.8	15.0
Assets of discontinued operations[3]	—	—	—	—	1,280.4
Net assets	$ 2,524.3	$ 2,343.8	$ 2,372.9	$ 2,466.4	$ 2,787.0
Long term debt	$ —	$ —	$ —	$ —	$ 75.0
Employee future benefits	90.1	88.6	75.9	72.3	65.9
Future income taxes and deferred credits	269.0	178.6	173.6	177.1	162.6
Liabilities of discontinued operations[3]	—	—	—	—	435.5
Non-controlling interest	—	—	—	—	181.4
Shareholders' equity	2,165.2	2,076.6	2,123.4	2,217.0	1,866.6
Total capitalization	$ 2,524.3	$ 2,343.8	$ 2,372.9	$ 2,466.4	$ 2,787.0
Segmented Information					
Net sales to external customers					
Newsprint and specialties	$ 738.1	$ 583.9	$ 402.7	$ 335.9	$ 653.6
Pulp and containerboard	670.0	487.2	231.0	290.4	425.7
	$ 1,408.1	$ 1,071.1	$ 633.7	$ 626.3	$ 1,079.3
Operating earnings (loss)					
Newsprint and specialties	$ 45.7	$ (43.5)	$ (13.3)	$ (56.7)	$ 86.0
Pulp and containerboard	146.6	16.8	(72.9)	(20.5)	(69.4)
	$ 192.3	$ (26.7)	$ (86.2)	$ (77.2)	$ 16.6
Depreciation					
Newsprint and specialties	$ 63.2	$ 60.2	$ 41.3	$ 38.2	$ 49.4
Pulp and containerboard	54.1	52.5	39.6	28.5	44.2
	$ 117.3	$ 112.7	$ 80.9	$ 66.7	$ 93.6
Financial, Statistical and Volume Data					
EBITDA margin – %[10]					
Newsprint and specialties	14.8	2.9	7.0	(5.5)	20.7
Pulp and containerboard	29.9	14.2	(14.4)	2.8	(5.9)
Consolidated	22.0	8.0	(0.8)	(1.7)	10.2
Shipments – M tonnes					
Newsprint and specialties	920	845	513	492	767
Market pulp	686	702	355	415	568
Containerboard	107	109	59	68	92
Production – M tonnes					
Newsprint and specialties	880	834	578	456	773
Market pulp	713	695	404	365	570
Containerboard	106	107	67	48	95
Per common share – $					
Net earnings (loss)	$ 1.31	$ 0.22	$ (0.15)	$ 3.75	$ (0.03)
Cash flow from operations	2.78	0.96	(1.53)	0.82	1.73
Equity	17.43	16.72	17.10	17.85	15.03
Dividends paid	0.60	0.60	0.60	0.60	0.60
Market price range					
High	18.90	18.50	24.25	24.60	22.75
Low	14.35	12.75	14.30	18.05	17.63
Common shares outstanding (000's)	124,189	124,189	124,189	124,189	124,189
Return on net assets – %[6]	8.6	0.4	(3.2)	21.2	(0.4)
Return on common shareholders' equity – %[7]	7.7	1.3	(0.9)	22.8	(0.2)
Ratios					
Current ratio	7.2	6.5	5.5	6.7	1.4
Debt to capitalization ratio[8,9]	0:100	0:100	0:100	0:100	4:96
Number of employees	2,096	2,462	2,601	2,671	5,913

Corporate Office

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Investor Information

Annual General Meeting
The Annual General Meeting of the Shareholders will be held on Tuesday, April 24, 2001 at 2 p.m. in the Fairmont Waterfront Hotel in Vancouver, British Columbia.

Transfer Agent and Registrar
CIBC Mellon Trust Company at its principal offices in Vancouver, Toronto and Montreal.

Auditors
KPMG LLP, Vancouver, British Columbia

Shares Listed
Common Shares (symbol: NS.A)
The Toronto Stock Exchange

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Partner, Farris Vaughan Wills & Murphy

Russell J. Horner [2]
Vancouver, British Columbia
President and Chief Executive Officer,
Norske Skog Canada

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Senior Vice-President, Chief Financial Officer,
Norske Skogindustrier ASA

Harold N. Kvisle [1,2,3]
Calgary, Alberta
Executive Vice-President,
Trading & Business Development,
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William P. Rosenfeld [1,2]
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Partner, Goodmans

W. Thomas Stephens [1,2,3]
Greenwood Village, Colorado, USA
Corporate Director

1 Member of the Audit Committee
2 Member of the Environmental, Health and Safety Committee
3 Member of the Governance and Human Resources Committee

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Chairman
President and Chief Executive Officer,
Norske Skogindustrier ASA

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Senior Vice-President, Sales and Marketing

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Vice-President, Corporate Affairs

Ralph Leverton
Vice-President, Finance,
Chief Financial Officer and Secretary

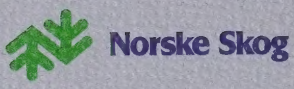
Robert H. Lindstrom
Vice-President, Strategy

R. Scott McLean
Vice-President, Supply Chain and
Information Technology

James M. Miller
Vice-President, Sales and Marketing, Pulp Operations

Peter M. Staiger
Controller Treasurer

project management: Arlette Communication
design: SamataMason
photography: Howard Fry, Albert Normandin and Victor John Penner
printing: H MacDonald Printing



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